

REPORT  
OF THE  
SELECT COMMITTEE ON SMALL BUSINESS  
UNITED STATES SENATE



PRESENTED BY MR. MCFARLAND FOR MR. SPARKMAN

JANUARY 15 (legislative day, JANUARY 8), 1951.—Ordered to be  
printed, with illustrations

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UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1951

## REPORT OF THE SELECT COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE

### SELECT COMMITTEE ON SMALL BUSINESS

[Created pursuant to S. Res. 58, 81st Cong.]

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II

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## SELECT COMMITTEE ON SMALL BUSINESS

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Mr. McFARLAND (for Mr. SPARKMAN), from the Select Committee on Small Business, submitted the following

### REPORT

#### PREFACE

On February 20, 1950, pursuant to Senate Resolution 58, the Senate Select Committee on Small Business was created. This marked the first time in the history of our Government that a permanent committee of the Senate was established expressly to—

study and survey by means of research and investigation all problems of American small-business enterprises, and to obtain all facts possible in relation thereto which would not only be of public interest, but which would aid the Congress in enacting remedial legislation, and to report to the Senate from time to time the results of such studies and surveys.

While the members of your committee were appointed in April, the actual staff work of your committee did not get under way until June 1950. In view of definite limitations of time, considerable progress has been made by your committee in the accomplishment of both short and long-term objectives.

Probably the most significant contribution of your committee to the welfare of small business has been its sponsorship of some 40 so-called small-business clinics. These informational meetings held throughout the country have enabled upward to 30,000 small independent businessmen—mostly manufacturers—to keep abreast of the procurement aspects of our national industrial mobilization program.

In addition to the other activities set forth in the body of this report, a series of public hearings are contemplated which will place in perspective some of the most pressing problems currently being encountered by small enterprisers in their struggle to survive in the midst of a war economy.

JOHN SPARKMAN,  
*Chairman, Select Committee on Small Business.*

WASHINGTON, D. C., January 15, 1951.

## INTRODUCTION

Twice within a decade American small business is searching for its place in an all-out industrial mobilization program.

And for the second time in 10 short years the framers and the ex-ecutors of our national defense policies and programs must decide what role shall be assigned to the 3,670,000 small businesses which form the broad base of our industrial-commercial pyramid.

The crisis confronting our country may easily determine whether we are to continue to exist as a free Nation. It is no mere alarmist point of view to hold that unless there is a marked betterment in the present posture of world affairs, no American can face the future without feelings of somber concern.

In sheer numbers the odds are against us. The manpower superiority of our potential foes is beyond dispute. And the hour of final decision may find us standing alone, our allies supine or numbed into indifference.

Counterbalancing factors in our favor are two: one intangible, the other capable of concrete measure. First, there is that incalculable vigor which springs from the spirit of free men engaged in the preservation of their liberties. Second, there is our traditional productive genius once again being summoned to buttress our national might for a supreme effort.

American small business embodies these twin sources of our strength. There is the freedom of the economic little fellow to enter business at will and to gain or lose thereby. If he prospers, there is added a cubit to our economic stature. If he fails, he can try again. It is the freedom of choice that counts.

Because our cherished political liberties are grounded on our economic freedoms, your committee is keenly conscious that small business has today assumed an importance which cannot without hazard be undervalued. Small business has in recent years, as a result of belated evaluation, become the economic symbol of the American way of life. While we are struggling to preserve and extend the democratic ideal throughout the world, extraordinary precautions must be taken to assure that during our preoccupation with this noble purpose we do not become unmindful of our responsibility toward our smaller business units.

With this in mind, your committee is dedicated to the principle that the unnecessary failure of a single small-business concern strikes at the very foundation of our national well-being and is to be avoided in the name of survival itself.

In part I of this progress report of the Senate Select Committee on Small Business, an attempt will be made to outline the current position of small independent enterprises as we stand on the threshold of what may at any time become a titanic test of our national strength.

## PART I. WHERE SMALL BUSINESS STANDS TODAY

Every student of the problems of American small business knows that the economic casualty lists of World War II were made up almost entirely of small enterprises. In the first 2 years of the last war, 16 percent of the small-business men of the country were forced to close their doors. To a considerable extent, this was so because a lion's

share of war contracts were funneled to big business. From 1940 through 1944, the 100 largest corporations got 60.6 percent of all prime contracts awarded. More than 51 percent of such contracts went to the top 33 companies. And while the order backlogs of this handful of companies were growing longer daily, and critical weapons shortages were developing on some fighting fronts, the productive facilities of many of our 184,000 manufacturing establishments were idle.

Staggering though the impact of war was on many small companies, small business as a whole exhibited that stamina and instinct for survival which placed it in a position to take advantage of whatever opportunities were present in the postwar economy. The development of several so-called growth industries, such as television and plastics, offered enticing prospects for small entrepreneurs. The plastics molding field shortly became almost a small-business monopoly.

Many of the economic dislocations which were expected to set in after VJ-day failed to materialize. The sharp recession which occurred 2 years after the end of World War I did not have a counterpart in the years 1946 through 1950, although business activity did dip in the spring of 1949. In general, however, since the end of World War II, the American economy showed a remarkable ability to maintain its war-born momentum.

With the reabsorption of some 10,000,000 veterans into the economy, full employment, and a high level of general industrial activity, the business outlook up to the time of Korea had few aspects that caused more than passing concern. By June 1950, civilian employment stood at 61.5 million, and production of goods and services reached an annual rate of \$267,000,000,000. To those holding that "as business goes, so goes small business," the picture looked rosy.

Economically, 1950 was one of the banner years in our history. Industrial production, earnings, dividends, and wages set new records. The gross national product climbed to an annual rate of \$277,000,000 and personal income averaged about \$230,000,000,000. Working capital, some \$55,000,000,000 of it, burned holes in corporate pockets. The stock market bellowed bullishly. Under this impetus, the public rushed to retail counters and, before regulation W was revived on September 18, rang up credit purchases of \$21,000,000,000, a record high.

Events since July, however, have inspired no sense of complacency in the small business community. To many a small manufacturer caught between the soaring costs of doing business on one hand, and the acute scarcity of essential production materials on the other, it seems as though the lessons learned during the early phases of World War II have been forgotten. Nor are these small producers reassured when they see military procurement officers, in their understandable haste to award defense contracts, take some of the very short cuts which were partly responsible for the exclusion of small bidders in the early years of the last war.

The declaration of a state of national emergency on December 18, 1950, has, in addition, caused small-business men to wonder with mounting concern what the future holds for them. No comfort is derived from their knowing that some 70 percent of all military procurement is currently conducted on a "negotiated" basis, while approximately only two-fifths of the remaining 30 percent of purchases

is being awarded to the general small bidder on an "advertised" basis. And without a DO defense order priority which automatically accompanies a military order, the small manufacturer is, often as not, shut off from essential materials through the malfunctioning of the voluntary allocation program.

The question bothering most small-business men is whether defense purchases will accelerate fast enough in the months ahead to cushion dislocations of production schedules, employment lay-offs on civilian lines, and material shortages. If not, they know that the wayside will be strewn with their corporate corpses.

The rate of military spending up to the outbreak in Korea was about \$12,000,000,000 a year. Present obligational authority of the Department of Defense is as follows:

Office of the Secretary-----	\$684, 300, 000
Department of the Army-----	16, 461, 255, 000
Department of the Navy-----	10, 749, 328, 000
Department of the Air Force-----	13, 945, 798, 000
Total-----	41, 840, 681, 000

It is estimated that the annual rate of spending in December was about \$18,500,000,000. From this, it is obvious that the industrial mobilization program will have to be greatly accelerated if the spending target of \$35,000,000,000 is to be reached by June 1951.

Some idea of the extent to which small business participates in military procurements may be gleaned from a report of the Munitions Board covering fiscal year 1950. The Departments of the Army, Navy, and Air Force reported purchases totaling \$5,355,296,000 for supplies, services, and construction in the United States during that period. Direct purchases from small companies with fewer than 500 employees amounted to \$1,310,615,000 or 24.5 percent of the annual total.

It is further reported that of the total number of purchases made, as distinguished from dollar value, 1,267,000 or 73 percent were transacted with small firms.

There are, of course, many types of items on which small companies are by virtue of their smallness excluded from bidding as, for instance airframes and engines, ships, and heavy ordnance. However, on other types of contracts for over \$5,000, small firms contracted for 79 percent of the value of clothing contracts; 73 percent of container purchases; 65 percent of building materials, including 82 percent of the lumber.

On the other hand, it should be pointed out that these examples are drawn from industries which are predominantly small in character.

Of the total purchases in fiscal year 1950, some 72 percent of the dollar value represents purchases made by negotiation, of which percentage small businesses obtained about 14 percent.

Compared, however, with the state of our industrial preparedness in 1939, America should experience relatively few difficulties today in achieving a full-throttle acceleration of our assembly lines. Because of the high level of productivity during the past 5 years, our economy will, in effect, have a running start in the race to build up our arms program.

Nevertheless, it should be recognized, that the prevention of widespread distress among small businesses will require production plan-



ning and managerial foresight of the highest order. No official attitude or methods, seeking sanction in the name of expediency, should be condoned if they tend to bypass qualified small plants in favor of well-known large companies. Such a course will only once again result in backlogs and delayed delivery dates, while at the same time many small facilities are idle or only partially utilized.

Also to be avoided at all costs is a mushrooming of new facilities at a tremendous outlay of public funds while existing small enterprises are either closed down or eking out a hand-to-mouth existence on the crumbs of subcontracting. Consideration should also be given whereby planned procurements may be funneled to qualified producers of curtailed consumer products to compensate for the loss of markets resulting from restrictions on civilian goods.

It is manifest that even under the most optimistic of appraisals, many small enterprises, wholesalers and retailers, as well as manufacturers, are in for a rough ride. Whether they are bounced into oblivion for the duration or are afforded an opportunity to make a direct or subsidiary contribution to the defense effort depends in large measure on the degree of industrial statesmanship and the acumen of public policy which is brought to bear on their problems.

Your committee, through its daily contacts with representatives of every stratum of small-business activity, has had brought forcibly to its attention certain current aspects of the position of small business in the general economy during the last 6 months of 1950.

Any change from a peacetime economy to an economy geared to war mobilization produces inevitable instabilities. The midyear lack of balance had in large part been due to the zigzag fortunes of war in Korea. Until the middle of December, no one had been certain whether we should set out mobilization goals for an isolated skirmish in Asia or whether we should gird ourselves for the gravest eventualities. Planning had been necessarily piecemeal. A limited defense priority mechanism had been established. A system of voluntary allocations of scarce materials had been tried, and found wanting. Regulation W had been applied to consumer credit. An Economic Stabilization Agency had been established.

The early victims of this economy-in-transition have not been the large, often highly integrated companies with their virtually limitless resources and ability to ride out storms. (One of the largest firms in the electrical field has already announced that war work in 1951 will account for 33½ of its production.) Rather it is once again the smaller companies that have lost their footing as our shifting peace-war economy has vacillated between the extremes of "business as usual" and iron-clad controls.

Inflation, the virus X of small business balance sheets, has already exacted its toll. There are pending before the Comptroller General appeals from small manufacturers who have found that rising costs of materials and labor will not only erase their profits but will actually cost them money to complete defense contracts. One manufacturer of fiberboard shipping containers estimated to your committee that the \$14,000 he stands to lose on a current contract is equal to one-sixth of his capital.

The Government itself, as buyer, should be keenly aware of the necessity of taking immediate steps to clamp a lid on spiraling inflation. Between June and mid-December soaring prices alone have added

\$3,000,000,000 to the out-of-pocket cost of providing the military with its minimum material needs. The following table illustrates this by showing the prices of some defense materials as of June 23 and as of mid-December:

Commodity	June 23 price	Mid-December price	Percentage increase
Lead, per pound.....	\$0.11½	\$0.17	48
Natural rubber, per pound.....	.282	.66½	133
Tin, per pound.....	.764	1.39	83
Wool tops, per pound.....	2.00	3.35	67½
Zinc, per pound.....	.157	.182	16
Steel scrap, per ton.....	37.50	42.50	12

Meanwhile, after shooting from the hip at the automobile industry, the Economic Stabilization Agency is stalling for organizational time, by asking business and industry to observe voluntary price ceilings as of December 1. It may be expected that small producers, many of whom have already been forced to patronize the gray market for materials in short supply, eagerly await the imposition of wage and price ceilings.

From the small business point of view, the need for wage stabilization imposed concurrently with price ceilings becomes evident with the recognition that in 1949 only 7.9 percent (after taxes) of the national income was derived from profits, while 66 percent of the national income was represented by wages and salaries.

Perhaps nowhere is the vulnerability of small companies more glaringly revealed than in the current dog-eat-dog scramble for many essential materials of production. Despite capacity production, steel, the very breath of life to thousands of small manufacturers and processors, has all but disappeared from the free market. Aluminum, copper, zinc, nickel, tin, cobalt are becoming increasingly scarce.

The correspondence files of your committee bear ample testimony to the plight of small plants in their progressively deteriorating efforts to compete with big business in the materials market. Consequently, small companies in all sections of the country are calculating the life expectancy of their organizations in terms of weeks. In their frantic search for defense orders which would enable them to secure materials with a priority rating, small-business men have learned the hard truth that to date there simply aren't enough defense orders to go around.

It is only to be expected that some large suppliers of basic materials are using the short-supply situation to further their own ends. Particularly acute is the position of companies which started in business after the last war and have enjoyed exceptional growth. Lacking a substantial historic buying pattern for a basis of allocations, they must approach their suppliers as suppliants, or seek needed materials in other than normal trade channels.

Gray market operators are out to make a quick killing. Large tonnages of sheet steel are currently being offered in New York at \$350 a ton, a figure which is about \$225 a ton higher than a legitimate price. Obviously small-business owners cannot stand the strain of such ruinous costs.

Again, many small users of steel find it hard to understand where the steel currently being produced is going. They know that the



military program is absorbing only about 8 percent of total current production. The nub of the problem, they feel, is in the inherent imbalances in the distribution of steel whereby steel mills have increased shipments to their own fabricating subsidiaries at the expense of their small customers, and have otherwise reduced the amount of steel for general consumption by upping shipments to their own warehouses. This is one reason why warehouses, the traditional source of supply for less-than-carlot small users, have failed to supply the needs of small business. Warehouse inventories, in fact, have dropped more than 40 percent this year.

Your committee has knowledge of one typical instance in which a small manufacturer of cellar-house doors made of sheet steel cannot obtain sheets from his mill. The mill, however, ships the sheet to its own fabricating plant and is now selling the manufacturer partially stamped cellar doors. Not only does this growing practice increase the cost of the product to the consumer—in this case, home owners—but the small manufacturer's stamping equipment is idle and represents to him and to the country an economic waste.

The goal of a 3,500,000-man armed force by July of 1951 has added yet one more impost to small companies already stumbling under the burdens of high costs and material shortages. The summary calling back to uniform of some 500,000 reservists since Korea has hit small firms hard, particularly those owned or managed by reservists who have been called up with little or no advance notice. Fledgling enterprises have had to be abandoned and considerable monetary losses written off, largely because of insufficient time in which to make proper arrangements for the continuance of the businesses.

In addition, small companies are finding it increasingly difficult to retain their skilled personnel in a tightening manpower market. It is clear that as the industrial mobilization program gains momentum, small companies will find their manpower problems progressively more troublesome.

Until our industrial mobilization program gains full stride, economic dislocations will continue to create problems for all business units, large and small alike. Experience has shown, however, that in times of stress, those commercial entities with the weaker structures, the fewer resources, are the ones which must bear the brunt. Never has the future held less certainty. Those who number among their responsibilities the welfare of American small business realize how unwavering must be their attention to the most essential objective of helping small independent enterprises to weather the storm. Sacrifices are going to have to be made by all. Our national self-interest demands that such sacrifices shall be borne equally by small and big business alike. Industry, the public, labor, and the Government itself must not slacken in the pursuit of any worth-while means which has as its goal the preservation of the economic "little fellow."

## PART II. PROGRESS REPORT

### INTRODUCTION

The crisis in Korea, which exploded only a few weeks after the work of the Senate Small Business Committee actually got under way, forced your committee to concentrate its attention on assisting small

business to survive the threats that are implicit in a mobilization program. If an all-out war develops, the Nation will badly need the tremendous productive capacity of the smaller manufacturers. And it is certainly fundamental that small business is vital to the maintenance of a vigorously competitive economy.

The activities of your committee described in part II have covered a wide range of problems. The scope of them underlines the broad importance of small business to the entire economy.

#### I. DISSEMINATION OF PROCUREMENT INFORMATION

The Senate Select Committee on Small Business has held from its inception that the Federal Government, as the largest purchasing agency in the United States, should serve as a model. It also felt that the Government procurement agencies were remiss in their duty as long as relevant purchasing data were not readily available to all businessmen—large and small. For that reason, your committee sought means of distributing such information as widely as possible through new and dramatic means, since it was evident from testimony on every hand that the old ways of doing the task did not meet the test.

Your committee has made a broad attack on this problem, approaching it from several angles and employing various means of getting the information to the small-business man who most needed it.

In the first place, the Senate Select Committee warmly applauded the work already begun in this field before it was organized. It wholeheartedly endorsed and vigorously supported the Department of Defense, the Department of Commerce, and the General Services Administration in their cooperative efforts to disseminate procurement data through the daily synopsis of bids. Since that time, we have initiated many refinements and brought the distribution of these sheets to unprecedented levels.

Secondly, your committee felt that there was no real primer in the field of doing business with the United States Government and that the small-business man who attempted to sell to the Government without certain basic facts was doomed to a long and often frustrating apprenticeship served mainly in the labyrinthic corridors of the Pentagon and the maze of temporary buildings lining the Mall. For that reason, the staff of your committee compiled such a booklet entitled "Selling to Your Government" in the hope that the helpful hints contained therein would smooth the path of many businessmen.

Our third, and probably most effective approach in this drive, came with the inauguration of the small-business clinics which "took Washington to Main Street" in 40 separate localities during the last 6 months of 1950.

##### *1. Synopses of bid invitations and awards*

On March 15, 1950, the Departments of Commerce and Defense, with the General Services Administration, formulated a program of distributing procurement information in order that all types of business—large, medium, and small—might have an equal opportunity to obtain the necessary data concerning invitations to bid for Government contracts. Through this means, businessmen obtained ready access to military and civilian needs and were assured of a fair place at the starting line.

It soon became apparent to the Senate Select Committee on Small Business that the first step, laudable as it was, did not fill all of the requirements of those it was established to serve. For that reason, it investigated the usual courses of business decision and found that there were many small-business men who either did not desire to serve as prime contractors or were unable to do so. Therefore, a logical extension of the synopsis apparatus appeared to warrant the issuance of a weekly listing giving the pertinent data on those contracts awarded during the preceding 7 days. Obviously, this material was most helpful to the small producer who wished to subcontract and provided him with a satisfactory list of prospects. The procuring agencies and the Department of Commerce were again cooperative and within a few weeks the wrinkles had been ironed out and the weekly synopsis of awards was being collected and distributed by the same offices and agencies as were responsible for the daily listing of bids.

Your committee has endeavored to implement and expand this established policy. Through the joint cooperation of all three of the agencies, the number of outlets for the daily procurement synopsis and weekly award synopsis issued by the field service of the United States Department of Commerce has been increased to 5,392 in number. To a very great extent, the growth in the number of these groups serving as outlets for the synopses may be attributed to the small-business clinics, for after almost every such meeting, the members of the panel receive many requests to establish repositories in a community or in a locality previously not covered. Thus, one means of disseminating procurement information leads to the wider use of another method and the demand for these facilities snowballs.

It might be interesting to note the ever-increasing growth of these outlets. Such growth is indicated as follows:

June 9, 1950.....	1, 142	Oct. 16, 1950.....	4, 576
July 10, 1950.....	1, 435	Nov. 13, 1950.....	5, 045
Aug. 14, 1950.....	2, 577	Dec. 11, 1950.....	5, 206
Sept. 11, 1950.....	3, 661	Jan. 8, 1951.....	5, 392

Your committee intends to maintain a constant scrutiny of the procurement activities of these agencies in order to further the dissemination of procurement information and to establish every possible safeguard to promote the welfare and interests of the small-business men. Your committee wholeheartedly endorses in principle the present program and it believes that through continued cooperation, other refinements and additional distribution outlets can be gained through continued vigilant efforts.

## 2. *Primer on selling to the Government*

Through contacts with individual businessmen, the committee has been led to the conclusion that the vast majority of small-business men who turn to their Government in times of economic stress for contracts with which to keep their wheels turning are woefully uninformed regarding Federal procurement policies and procedures. It was also evident that while some purchasing agencies had published involved brochures descriptive of their own methods, no over-all treatment of the ABC's of Government purchasing methods was available to the novice contractor.

Accordingly, the committee prepared a booklet entitled "Selling to Your Government." In the simplest terms an effort was made to

answer the questions most commonly asked by businessmen at clinics and in office interviews regarding how to go about selling to Federal agencies.

The original press run of 2,000 copies of *Selling to Your Government* proved completely inadequate to meet the demand. To date, 38,000 copies have been sent out in answer to requests and a 10,000 backlog of unfilled requests now exists. The demand for this booklet eloquently attests to the current interest of small-business men in supporting the defense production effort while at the same time obtaining whatever benefits that may be derived from war work.

### 3. Clinics

On September 22, 1950, the chairman of your Small Business Committee reported to the Eighty-first Congress on the small-business clinics inaugurated and administered under the auspices of the committee in the following words:

On June 14, 1950, the Senate Select Committee on Small Business began a series of hearings with the departments of Government in order to ascertain, from their experience, their attitudes toward the problems of the American small-business man.

As a result of these hearings, it was decided that a series of open-forum-type programs should be held in an effort to acquaint businessmen with the routine methods of securing necessary information for bidding on and securing Government contracts. Foreseeing the inevitable passage of a defense production act in some form, it was even more evident that it was incumbent upon the Government to meet in person with the businessmen who would be called upon to support such a program during a period of even partial mobilization.

The first Government small-business clinic was held at Bridgeport, Conn., on July 17, 1950, under the sponsorship of Senator William Benton with the cooperation of the Small Business Committee of the Senate. Since that original meeting, the general outline of the conferences have remained relatively constant with representatives of your committee and of the procurement and lending agencies of the Government giving brief statements followed by a question and answer period. The buying procedures of the Department of Defense and of the General Services Administration have proved to be most interesting to the small-business men attending these clinics, as are the regulatory work of the National Production Authority, the lending policies of the Reconstruction Finance Corporation, the informational work of the field offices of the Department of Commerce, and the aids to small business instituted by the Economic Cooperation Administration. A few selected excerpts from several of the clinics which were transcribed for the use of the committee follow:

From talks of Commander Philip F. Ashler, Chief, Small Business Office, Munitions Board, Department of Defense:

While we on this panel today are in reality trying to bring Washington to your city, I feel that it is only fair to warn you that we have not brought with us any blank checks or any blank contracts. About the only thing that we can guarantee that will happen in this meeting is that nobody will go out that back door with his pockets bulging with Government orders. However, we hope to give you sufficient information, so that each of you, by the end of the day, will have a clearer understanding of what is happening in Washington, and of what lies ahead as best we can see it in the Department of Defense. Then each of you will be in a better position to determine for yourselves just where you and your organization might fit into this accelerated defense program.

\* \* \* I think it is only fair that I should tell you that there is no law on the books or pending which permits any procurement office in the Government to give contracts to a company just because it is small. \* \* \* Thus you will



see that we have little legislative background that will permit us to take positive action to place a contract directly in your hands, and we found in talking to businessmen like yourselves that most businessmen did not want any subsidy. They wanted no preferential treatment. All they wanted was a fair shake and to be assured of a place at the starting line. So we set up a central business office under the Munitions Board. The first points the businessman in the right direction by telling him who wants to buy what he wants to sell, while the latter is empowered to listen to and correct complaints and suggestions. \* \* \* These two offices we set up are somewhat of a service station for the businessmen.

In closing, I want to caution you about this: Just because you are trying to do business with the Government, do not expect things to come any easier. You must be willing to exercise just as much initiative, enterprise, and salesmanship in dealing with your Government as you would be willing to exercise if you were doing business with private industry. Your Government is in a position and quite willing to give you many types of aid, information, counsel, and guidance, but at this point do not expect orders from the Department of Defense to walk into your doors.

From talks of Lt. Col. Bernice Philipps, Central Military Procurement Information Office, Department of Defense:

The Office I represent is, as its name implies, a place where procurement information for all the armed services is available. It was established about a year and a half ago by the Secretary of Defense to act as a guide service to businessmen in their dealings with the Government, and it has been staffed with officer personnel of the Army, Navy, and the Air Force, in order to make available one central place where businessmen could secure information concerning procurement for all of the military services.

Since the first of the year we have answered many thousands of questions from our office by letter and we have personally directed thousands of businessmen in the steps that they should take in securing contracts from the military services. We know from the businessmen that a great many of those people have been successful in securing contracts from the services. We want you to know that we will be delighted at any time to answer any of your questions by letter or any time that you are in Washington, if you will come in to our office for information, we will be very glad to be of every possible assistance to you personally, for that is the very reason we are there.

From talks of Jess Larson, Administrator, General Services Administration:

In conclusion, may I summarize. I have attempted today to tell you what the General Services Administration is buying for Federal civilian agencies; what methods we use in making those needs known to you, and how you can get in line to place your bids on those requirements. Throughout all this work we cooperate closely with the Department of Commerce in the publication of all this information, and throughout it all also we follow one basic policy, namely, we want the widest possible circularization of bid invitations. We urge and we want the maximum competition among business firms large and small for these long lists of items to satisfy the Government's requirements. We want that competition from both large and small business, but particularly from small business firms, because it is the type of contract which normally would apply most to them.

After circularizing as widely as we can and getting as much competition as we can, we then give every bid we receive the utmost consideration in awarding the contracts. Now, we need more suppliers; we are looking for more sources of supply; you are interested in getting lined up with the Government in connection with these supply needs, otherwise you would not have taken the time and trouble to come to this meeting today. So I hope that what I have said may help somewhat toward bringing these two closer together.

We need your help. You need to know us better. Through the means of this clinic, we hope to accomplish just that.

At the same time, those attending the clinics have carefully questioned the Senators present or the staff member of your committee attending the meetings on past actions by the Congress and the outlook for future legislation in this field. Quite naturally, these questions have been most revealing and they, along with informal discussions, have given your committee a keen insight into the thoughts and

problems of the American small-business man. These impressions, taken together, quite accurately reflect the anxieties of the entrepreneurs of the Nation and give us a starting point from which we will launch legislative action to correct the defects and flaws which have been brought to our attention.

Incidentally, the Senate Select Committee on Small Business has been represented at all these clinics, almost without exception. It might also be mentioned that the committee has handled arrangements for these meetings and its staff has devoted a great deal of time and effort in making them an effective outlet for procurement data.

Forty of these clinics were held between July 17 and December 16. They covered the breadth and depth of the United States, from Augusta, Maine, and Orlando, Fla., to Seattle, Wash., and Los Angeles, Calif. We estimate that between 25,000 and 30,000 businessmen attended these meetings during 1950, many of them driving or flying hundreds of miles to be in attendance.

PLACE	DATE	PLACE	DATE
Bridgeport, Conn.....	July 17, 1950	Kansas City, Mo.....	Oct. 3, 1950
Chicago, Ill.....	July 21, 1950	Muskogee, Okla.....	Oct. 4, 1950
Baltimore, Md.....	Aug. 3, 1950	Amarillo, Tex.....	Oct. 6, 1950
New Haven, Conn.....	Aug. 10, 1950	Waterloo, Iowa.....	Oct. 9, 1950
Hartford, Conn.....	Aug. 11, 1950	Albuquerque, N. Mex..	Oct. 11, 1950
Augusta, Maine.....	Aug. 21, 1950	Columbus, Ohio.....	Oct. 17, 1950
Milwaukee, Wis.....	Aug. 28, 1950	Lexington, Ky.....	Oct. 30, 1950
Chicago, Ill.....	Aug. 29, 1950	Little Rock, Ark.....	Nov. 3, 1950
Minneapolis, Minn....	Aug. 31, 1950	Orlando, Fla.....	Nov. 9, 1950
Fargo, N. Dak.....	Sept. 1, 1950	Huron, S. Dak.....	Nov. 11, 1950
Wichita, Kans.....	Sept. 1, 1950	St. Louis, Mo.....	Nov. 13, 1950
Los Angeles, Calif....	Sept. 5, 1950	Scranton, Pa.....	Nov. 14, 1950
San Francisco, Calif...	Sept. 5, 1950	Denver, Colo.....	Nov. 16, 1950
Seattle, Wash.....	Sept. 7, 1950	Laramie, Wyo.....	Nov. 20, 1950
Portland, Ore.....	Sept. 8, 1950	Atlanta, Ga.....	Nov. 27, 1950
Cleveland, Ohio.....	Sept. 18, 1950	Savannah, Ga.....	Nov. 28, 1950
Grand Rapids, Mich....	Sept. 20, 1950	Greensboro, N. C.....	Nov. 29, 1950
Buffalo, N. Y.....	Sept. 21, 1950	Concord, N. H.....	Dec. 6, 1950
New Brunswick, N. J...	Sept. 22, 1950	Tucson, Ariz.....	Dec. 15, 1950
Wilmington, Del.....	Sept. 28, 1950	Oklahoma City, Okla..	Dec. 16, 1950

The committee's plans for 1951 envision a continuation of the small-business clinics, since there have been absolutely no signs of diminishing interest or decreasing returns for the relatively slight expenditure of time and money by the Washington panel involved. At this writing, approximately 12 meetings have been scheduled for January and early February and additional requests for clinics are being received almost daily by the committee from Members of Congress and State and local chambers of commerce.

It is our feeling that these meetings have not been valuable alone to those attending and participating in them. Countless thousands of other interested people have been informed of developments in the procurement field and aids available for small-business men through the extraordinarily heavy coverage of the clinics by press and radio. In addition, many chamber of commerce executives and service group representatives have been present who undoubtedly carried back to their members the story developed at the conferences. It is a demonstrable fact that existing advisory and service agencies, such as Department of Commerce field offices and local chambers of commerce, noted sharp upturns in the number of businessmen coming to them for assistance after a clinic had been held in the vicinity. The over-



whelming expansion in the distribution and use of the daily and weekly synopses of bids and awards has also been an unfailing concomitant of the clinics.

It has been the unanimous opinion of all participants that the question-and-answer portion of these programs has been a most valuable and informative feature of the clinic. Through these means, local problems and situations may be met and never is a question allowed to go unanswered. Following this forum, the panel makes itself available for individual queries or discussions on specific or confidential matters.

Before concluding this section of the report, we wish to express our deep and sincere gratitude to those who have joined in making these meetings possible. Your committee has received heart-warming assistance in arranging them, both from the State and local groups sponsoring them, and from the executive departments who have spared the services of key personnel without complaint. Our indebtedness to the Department of Defense, the Department of Commerce, the Economic Cooperation Administration, the Reconstruction Finance Corporation, and the General Services Administration, is incalculable.

Your committee points with some measure of pride to its accomplishments in the field of these clinics and feels that it is an outstanding example of intergovernmental cooperation bringing together men in private and public life who have similar tasks to perform and similar problems to solve.

## II. CASE WORK

Since June, an increasing number of small-business men—manufacturers for the most part—have appealed to your committee for assistance. Although the types of problems confronting these businessmen encompass almost every difficulty which normally besets the small enterpriser, the majority of cases in recent months have involved (1) requests for help in obtaining a Government contract, and (2) requests for relief from material shortages.

This so-called case work, while it has consumed a considerable portion of your committee staff's time, has been rewarding inasmuch as many businessmen referred to your committee for assistance have, as a result, been able to remain in business and to participate in our national defense mobilization program.

It is estimated that in the past 6 months your committee staff has interviewed and sought to assist some 2,100 businessmen referred in person either by members of the committee or other Members of the Senate. In this same period, the committee staff has advised and aided approximately 6,700 small-business men who have asked its assistance by letter.

Typical instances of assistance rendered, randomly selected, are as follows:

1. A Buffalo, N. Y., manufacturer participating in the guided-missile program was unable to complete his contract for lack of sheet steel. Your committee brought this condition to the attention of a steel supplier with the result that the contractor obtained sufficient steel to complete the work. In this particular instance, the businessman's defense order priority would not have become operative until January 1951.

2. The Corbitt Truck Manufacturing Co. of North Carolina was precluded from bidding on an Ordnance contract for trucks because the specifications were so drawn that only large companies could respond. At the instance of your

committee, the specifications were redrawn with the result that the Corbitt Co. secured a contract for more than a million dollars with a resultant saving to the Government.

3. A small producer of electrical wires in Georgia has been operating at 5 percent of capacity because of inability to secure any copper rods since May. Your committee approached a large copper supplier in New York with the result that the next day the small firm was advised that it would receive 50,000 pounds of copper in November.

4. A newspaper publisher in San Leandro, Calif., is on the verge of suspension because of insufficient newsprint. Your committee sent a staff member to New York to appeal for help from the American Newspaper Publishers Association and the International Paper Co. Both organizations indicated they would do everything possible to remedy this specific situation.

5. A small manufacturer of van-type semitrailers had shortly before Korea spent a large sum of money erecting new manufacturing facilities in Chicago in order to produce about 37 trailers a day. It looked as though this new plant would remain idle because the NPA aluminum order had caught this relatively new small company with a historic purchasing pattern as a basis for allocations of aluminum. Through the efforts of your committee an exemption was gained from the aluminum order which permitted this small company to stay in existence.

### III. MATERIAL SHORTAGES

A large segment of small business in the manufacturing field is handicapped by material shortages in degrees ranging from inconvenience to actual work stoppage. The complaints which have come to your committee indicate that the gravest trouble spots involve steel, aluminum, copper, zinc, and plastics.

It is evident that unless drastic remedial action is instituted at once many small manufacturers are going to fall by the wayside, their productive capacity lost to our industrial mobilization program. This will not only have an incalculable adverse effect on the war effort; it will strike a staggering blow at small business, one from which many of them may never recover.

So far, two approaches have been made to this problem, one by your committee, the second by the National Production Authority with its regulatory powers over the distribution of scarce and critical commodities. The committee efforts have of necessity been confined to "spot assistance" on individual cases. Clearly this is a case of stamping on brush fires when the forest is blazing.

Moreover, there is grave doubt as to the general effectiveness of the NPA's defense-order programs and voluntary allocation mechanism. Despite these administrative measures, the small manufacturer is finding it increasingly difficult to get materials and very often when he is able to do so, he must pay profit-canceling prices on the gray and black markets.

In the present material crisis, the historic handicap of small business—an inability to make its voice heard in the councils of Government—is retarding corrective measures. In view of the evident necessity of spotlighting this present threat to small business, your committee will continue to study and investigate means of alleviating this highly undesirable condition.

#### 1. *Steel*

Although steel production in 1950 reached an all-time high of close to 97,000,000 ingot tons, 8 percent more than the previous annual production record in wartime 1944 of 89,642,000 tons, steel is in such great demand that the supply situation is reaching crisis proportions. The United States production of steel is three times that of Russia;

our expansion alone since 1939 of 20,000,000 tons exceeds the total output of England, and the rate of growth of our steel industry in the decade from 1940-50 was greater proportionately by 6 percent than our increase in population.

Since the turn of the century, our ingot capacity has risen from 24,039,000 tons per annum to 100,000,000 tons. Yet the United States is desperately short of steel. Orders for civilian steel are backing up so much faster than the ingot output available for nondefense use, that unfilled orders are accumulating on the books in spite of the fact that voluntary quotas of steel have been reduced substantially since October. Some steel manufacturers are bypassing their orders for steel, wiping the orders off the books when they cannot fulfill them. Other steel manufacturers are simply declining to take orders for steel and still others are carefully screening all new orders.

Warehouse inventories for steel, the source of supply for most small businesses, in the great surge of demand, have lost some 40 percent of their steel inventories in 1950, until now many small-business men have told your committee that it is virtually impossible to obtain steel from warehouses. Consequently, the black and gray markets in steel are once again thriving. This has taken place in spite of the National Production Authority Order M-6, of November 8, 1950, designed to establish regular allotments to warehouses to supply small-business firms dependent upon them for their steel needs. Under M-6, the steel producers are to allot to the warehouses proportionate percentages of each steel product, based on average monthly shipments during the first 9 months of 1950, the allotments to come out of steel production available after the mills have filled defense requirements. The warehouses are expected to continue the proportionate pattern of distribution to recognized customers that had existed in the past. M-6 was also intended to "hold the line" against inflation by maintaining normal price relationships on steel products between the mills and warehouses.

But this "voluntary" system of allocation has broken down. Pleas from small-business men for aid in getting steel flow into your committee, all with the same story. One wrote on December 5, 1950:

We are manufacturers of corrugated metal culverts, 95 percent of which are used for country road maintenance and construction purposes in the State of Iowa. We normally fabricate 500 to 600 tons per annum.

However, in the past month we have been closed down entirely due to the lack of steel, and all correspondence from our supplying sources indicate that our chances of securing steel without some type of Government assistance are very remote. Our competitors, which are subsidiaries owned by steel mills, continue to get steel. \* \* \*

THE RELIABLE CULVERT CO.,  
Centerville, Iowa.

Another wrote:

How can we get immediate action on the steel shortage? Our regular sources of supply cannot furnish it at any price; but people we never heard of before are calling us up, offering plenty of light steel sheets at prices running 2½ to 3 times the price we have been paying, and on which we have figured our jobs.

What do you suggest we do?

All we want is to be able to secure steel sheets through our regular sources of supply.

We want some immediate action or we will be closed down for lack of raw materials, as will all other industries.

TRUCK BODY BUILDERS ASSOCIATION,  
Los Angeles, Calif.

This overwhelming shortage of steel in the midst of the record-breaking production is due not so much to direct military orders, which consumed only 8 percent of steel production in the fourth quarter of 1950, under 2,000,000 tons, but rather to an upsurge of steel buying early in 1950 after the 1949 business recession, plus the losses of the lengthy 1949 steel strike. Strikes since VJ-day have cost the Nation 29,000,000 tons of steel.

In fact, the major complaint of the steel industry has not been the flood of defense orders but that the Government has not given the steel producers any clear-cut idea on the extent of defense business. Until some controlled-materials plan comes into effect, it is almost impossible for the steel industry to make any promises to civilian customers on when they can expect to have their steel orders filled. The petroleum and gas industry, for instance, has asked for 12,000,000 tons of steel for 1951; and, until they know how much they can obtain, they and the other manufacturers using steel can do no advance planning.

In World War II, almost 100 percent of the steel production was allocated for military and essential civilian needs, whereas now considerably less than half of steel production will go to defense work. The smaller than usual civilian portion, if left unallocated and under a voluntary program, precludes the small-business man from getting his fair share of the steel pie.

Because of the extreme steel shortage, the Government has been pressing for expansion of the steel industry as vital to the defense program. Nineteen steel companies have plans and authorization to increase production capacity by 3,972,000 tons in 1951 and another 3,000,000 tons in 1952, bringing our productive capacity up to 110,000,000 tons by the end of 1952. Secretary of Commerce Sawyer announced 2 months ago that by the end of 1952 the steel industry will be in a position to increase ingot capacity at the rate of 9,400,000 tons per year. At this rate of expansion, plus the \$3,000,000,000 expansion and modernization already completed since the end of World War II, the steel industry is much better prepared for total war production than at the beginning of World War II; but, in the distribution, the small-business man has been left out.

Small fabricators who must use steel are not beguiled by rosy statistical emphasis on increased future production. They are clamoring to know where the steel is going today. So far, no one has come forward with the answer.

## 2. *Aluminum*

There are three primary producers of aluminum in this country. The Aluminum Co. of America produces about 50 percent of our total domestic production, Reynolds about 30 percent, and Kaiser about 20 percent. Total production in 1949 came to about 1,300,000,000 pounds in comparison to a peak production of 1,800,000,000 during the war and 327,000,000 in 1939.

At the end of World War II, it was generally assumed that there would be a surplus of production capacity, and several plants were either shut down or dismantled. However, the producing companies undertook an intensive campaign to develop new users. The range of products was expanded at a tremendous rate, so that by the end of 1949 there were some 17,000 fabricators using aluminum. It



should be pointed out that most of these new fabricators were the smaller manufacturers.

There were 40,000,000 pounds of aluminum left in the stockpile from World War II. During the first 6 months of 1950 the aluminum companies placed an additional 60,000,000 pounds of aluminum in the stockpile program in part payment for the surplus plants that they had acquired in 1949.

Before the war, in 1939, the price of aluminum was about 20 cents per pound. Successive decreases cut the price to about 14 cents in 1942. This price has increased since then until it has now reached 18½ cents per pound.

One of the main problems in connection with the defense-program use of aluminum has been that the Munitions Board has not been able to state definitely what its requirements would be. The Board has set, as an objective for the first 6 months of next year, an additional 200,000,000 pounds for stockpiling. At the present time, the military needs are at the rate of 250,000,000 pounds a year. That means a total of about 450,000,000 pounds going for defense or stockpiling, which would be at a rate of about 35 percent of the total 1949 production. However, the three primary producers are expanding their capacity so that by the end of 1951 production should be at the rate of 1,700,000,000 pounds a year, an increase of 250,000,000 pounds.

Canadian production, wholly by the Aluminum Co. of Canada, an affiliate of Alcoa, is at the rate of 800,000,000 pounds a year, 80 percent of which is exported. Unless there is a general Allied mobilization, the United States should be able to obtain two or three hundred million pounds of the Canadian production.

The National Production Authority made an estimate that our defense needs would require 35 percent of total aluminum production. Initially, they planned to have an outright prohibition of certain non-essential civilian items so that defense production would not unduly upset essential civilian production. However, this policy was reversed and, in early November, NPA issued an across-the-board 35-percent cut in the use of aluminum, effective the 1st of January. On December 1, aluminum users were to be limited to 100 percent of the amount that they received during the first 6 months of 1950, which would bar any increased use since that period.

This first order has been modified so that the cut in January will be to 80 percent, in February to 75 percent, and on March 1 to the 65-percent target figure.

### 3. *Copper*

The copper industry in the United States is broken down into the following groups: (1) The mining of ore and the concentration of such ore; (2) the refining of ores and concentrates producing either electrolytic or fire-refined copper; and (3) the production of the various mill shapes, such as brass mill products, wire mill products, and foundry products.

It is necessary to go through these various steps before the material is suitable for use by manufacturers in the production of their various end products. The basic consideration, though, in the availability of copper is the amounts of ores and concentrates which are available, either domestically or from foreign sources, and the amount of refined copper which is imported from foreign sources. The basic limitations,

therefore, are on the primary material. There is sufficient productive facility to increase production if the primary raw materials were available.

At the end of 1949, electrolytic refinery capacity in the United States amounted to 1,557,000 short tons per year. During no period between the end of hostilities of World War II and the present time have we produced refined copper at the level of our productive capacity. In 1948, the highest postwar year, there was produced in the United States 1,234,000 tons of refined copper. This was made up from both domestic and foreign ores and concentrates. During the war period, the highest production level for refined copper was in 1943 with a production of 1,475,000 tons. Therefore, it can be seen that, although there is available 1,557,000 short tons of refinery capacity, that level of production was not reached either during the war or during the postwar period, the basic limitations being the availability of copper ores and concentrates.

During 1950, it is estimated, there will be available 1,575,000 tons of refined copper from domestic mine production, secondary material, and imported ores, concentrates, and metal. This total is arrived at as follows: 870,000 tons domestic mine production, 130,000 tons refined metal from secondary material, 300,000 tons of imported ores and concentrates, and 275,000 tons of imported metal. Of the total supply of copper available in the United States during 1950, approximately 1,300,000 tons will pass through domestic smelters and refineries. With present refinery capacity of 1,550,000 short tons, there will be available additional capacity to produce refined copper if the basic materials were available.

Although exact figures are not available as to the productive facilities of brass mills, wire mills, and foundries, it is our belief that there is excess capacity at the present time which could be used, if the refined copper supply were sufficient to meet the demands of these intermediate processors. Production, during the war period, was much higher than the current rate of operation. This was partially due to the fact that a large part of the requirements were in the form of ammunition strip which could be rolled on continuous mills, thereby taking advantage of the available facilities. The inherent problem, therefore, is not one of capacity to produce the type of material that is required to meet both the military and the civilian requirements, but is one of obtaining large supplies of ores and concentrates from currently operating mines and possible future additions in the mining field;

A general review of the mine potential from domestic and foreign sources indicates that within the next year there is little possibility of materially increasing mine production. The outlook, therefore, for the near future is one of a fairly constant supply of copper raw materials with increasing demands because of the military and civilian programs.

During 1950, with a fairly constant supply of raw materials, there was a decided increase in the production of brass mill, wire mill, and foundry products. This was accomplished only by the mechanism of drawing down inventories in the hands of the refineries and the fabricators of copper products to a point where they are now dangerously low. For instance, refined copper inventories at refineries is approximately equal to 15 days of operations. Under the most stringent war



conditions, these inventories were not reduced below this level. This same situation is prevalent in the brass-mill and wire-mill field. It was only through the reduction of inventories that the consumers of copper products were able to maintain their high rates of production during the year 1950. It is believed that during the year 1950 copper inventories will be reduced by approximately 125,000 tons. This material is no longer available for use by end product manufacturers. Even if the Korean situation had not developed, there would not have been sufficient copper to meet the demands of the civilian economy, no less the additional demands of the military programs. In light of this situation, certain actions are required to bring into balance the available supply of copper with the over-all United States demand, which includes military, stockpile, and civilian programs. Without some governmental measures reducing the copper demands of the civilian economy, it would not be possible to meet the military and stockpile requirements.

One of the major problems with respect to the availability of copper is the drain on the supply caused by the stockpile program. There is no question of the necessity of such a program, but consideration must be given to the balancing of this program with the over-all military and civilian needs of the domestic economy. This balance must be considered in terms of meeting a war-expansion program of military items and the necessary components of war-supporting civilian industries. The present program of the Munitions Board for the stockpile needs calls for an appreciable portion of the available supply of refined copper. These requirements are being reviewed continuously in light of the above considerations. It should be pointed out, though, that in terms of the over-all goal of the stockpile program the quantity which is being transferred each month is relatively small.

The major sources of imported materials, ores, concentrates, and metal, are Chile, Canada, and Mexico. A large part of the imports into the United States of copper from Rhodesia are returned to the United Kingdom on toll arrangements. These ores and concentrates come into the United States under bond, are refined in the United States, and are reshipped to the United Kingdom.

During the war period electrolytic copper was pegged at 12 cents a pound. The highest postwar price occurred on August 10, 1948, when price of copper was 23.5 cents per pound. During the 1949 general business recession, copper was selling at 16 cents a pound. From that time on, copper prices rose continuously until the Korean situation occurred, and just prior to that date a price of 24.5 cents was established. That price has remained stable through this period. It should be pointed out that the copper duty suspension was not extended by the Congress; and, therefore, imported copper is now priced at 26.5 cents, including the 2 cents duty.

In summary, therefore, it can be stated that—

1. There is very little likelihood of any sizable increases in the availability of refined copper to the United States in the near future;
2. The increased demand, because of military and stockpile needs, along with the very high demand for civilian users of copper due to the expanding economy, has created a severe shortage of copper in the United States; and
3. This deficit has required certain conservation measures to reduce the demands for copper in the civilian economy to meet the expanding military and stockpile programs.

## 4. Zinc

Throughout most of 1950, zinc consumption has outstripped production by an appreciable margin. In recent months the difference between consumption and production has been abridged by a heavy draft on inventories. With the stocks of both producers and consumers liquidated, some restriction on the use of zinc was essential in order to meet the increasing requirements for national defense. As a result, NPA Order M-15 was issued on December 1, 1950. Under this order the civilian consumption of zinc in 1951 is to be reduced 20 percent under the rate prevailing in the first 6 months of 1950.

The salient features of zinc supply-demand position are given in the tabulation below:

[Thousands of short tons]

	January to June 1950	July to De- cember 1950	January to June 1951
New supply:			
United States mine production.....	291.9	321.8	330.0
Secondary (slab).....	27.0	28.5	30.0
Imports:			
Ores and concentrates.....	126.0	142.0	125.0
Metal.....	76.8	83.0	77.0
Total.....	521.7	575.3	562.0
Distribution:			
Defense orders and stockpile.....	(1)	(1)	97.4
Civilian slab consumption <sup>2</sup> .....	468.7	500.5	375.0
Ore used directly for zinc dust, oxide, etc.....	67.6	72.0	68.0
Exports of slab.....	2.8	8.0	24.0
Total.....	539.1	580.5	564.4

<sup>1</sup> Defense requirements included with civilian consumption.

<sup>2</sup> Excludes additions to strategic stockpile.

Supplementing the above information, the National Production Authority has just recently issued an order (M-15) which is intended to assure zinc for our defense needs and at the same time distribute the remaining supplies for nondefense use on an equitable basis through normal business channels. It should be noted that, even with the restrictions imposed by Order M-15, it is anticipated that requirements during the first half of 1951 will exceed the anticipated supply by a small margin. This lack of balance is explained by Commerce officials as due to the recent increases in direct military requirements and export commitments, and it is further anticipated that the deficit caused thereby is expected to be covered by an order eliminating the nonessential uses of zinc.

Order M-15 does not, in itself, restrict the nondefense use of zinc. The order is a recognition that 20 percent of the available supply is now being diverted to stockpiling and for use in military contracts. Further, the order merely establishes rules by which the remaining 80 percent of the supply shall be distributed among all users. While it may appear that only 20-percent military use would hardly be sufficient justification for a control of civilian distribution, it is believed that the order will result in small users of zinc being able to obtain their fair share of the supply that remains after defense needs are satisfied. Department of Commerce representatives maintain that the real justification for M-15 is the equitable distribution of

zinc among all users outside of the consumption that is channeled directly into defense production and stockpile.

The order restricts the use of zinc or zinc products for maintenance and repair work beginning December 1, 1950, during each 6 months' period, to the average amount used for this purpose during the so-called base period—the first half of 1950. The small businesses which use less than 3,000 pounds of zinc or zinc products quarterly and those companies which use highly specialized types of zinc are exempt from the terms of the order. The order still further limits inventories of zinc or zinc products to a 45-day supply or to a practicable minimum working inventory, whichever is less. It is hoped that the adjustment provision of the order, wherein exceptions may be made to the provisions thereof when it is shown that the enforcement would cause undue or exceptional hardship or would not be in the best interest of national defense or the public interest, will be particularly beneficial to small business and will be the source of relief for many such organizations.

It might be interesting to note the attitude of one of the producers of zinc and copper, and in a letter dated September 25, 1950, Mr. J. M. Olin of the Olin Industries, Inc., East Alton, Ill., states inter alia:

The supply of copper and zinc, as you know, is inadequate to meet the production requirements for nonferrous metals in this country. We have done our best to urge our friends in Congress to remove the duty upon copper, which again became effective on July 1 of this year; but, as you know, the Senate tabled Senator McMahon's resolution, and apparently no action will be taken during this session of Congress in spite of the fact that the House has already passed a bill giving such relief.

It is my suggestion that, if anything can be done to increase the supply of copper, your giving more assistance to the increased production of nonferrous metal would be more helpful than any other action.

From a thorough study of the supply-demand relationship of these metals, it would appear that every effort should be made leading toward the increased production of nonferrous metals and the cognizant agencies—General Services Administration, Department of Commerce, Munitions Board, and the Reconstruction Finance Corporation—should be so advised in an effort to implement the legislative conditions imposed in the Defense Production Act of 1950.

#### IV. SYNTHETIC-RUBBER PROGRAM

Before undertaking any considerable study relating to the sound basic philosophy of increased participation by small businesses in the synthetic-rubber program, it would be best to preface any such study by reviewing briefly the history prior to World War II.

It is a matter of record that at the outbreak of World War II many of the larger rubber companies had completed considerable research on synthetic rubber, and following the outbreak of hostilities these companies pooled their knowledge and experience and placed it at the disposal of the Government. Therefore, it was perhaps only natural that the Government looked to those companies which had led the field in management and production. The inevitable result was that in nearly all instances the Government plants were operated and managed by the large companies.

Today the country faces the same problem of a short supply of rubber. However, in many other instances, the other problems are not the same. It is axiomatic that many of the problems of managing methods, specifications, and equipment all are generally known. These have since been resolved and are no longer perplexing matters. Of course, it is equally true that some factors, such as finance ability, management ability, and availability of proper organization, are still paramount factors. The question now resolves itself into one of Government policy as to whether the size of a business is or is not in itself a governing factor which should be considered in choosing or selecting the management of the synthetic plants, the entire cost of which was borne by the Government.

The problem and the approach thereto is constantly a complex and delicate one, but the picture does present and afford an opportunity to encourage greater small-business participation in the operation of these plants without impinging upon freedom of private enterprise or sacrificing the paramount interest of national security in the program, as contemplated in the policy provisions of the Rubber Act. With a larger participation, it would seem to be more probable that the declared policy of the Congress could be followed whereby there would eventually be a free, competitive synthetic-rubber industry in the United States.

At the outset, it would appear appropriate to submit a statement of figures indicating the participation of small businesses in the synthetic-rubber program.

Table No. 1

Operator	Location	Yearly capacity in long tons	Small rubber company percentage participant
Goodrich.....	Port Neches, Tex.....	79,200	None.
Do.....	Institute, W. Va.....	115,200	Denman, 10 percent.
Goodyear.....	Houston, Tex.....	79,200	None.
Do.....	Akron, Ohio.....	25,200	General-Latex, 35 percent.
United States Rubber.....	Naugatuck, Conn.....	25,200	Mohawk, 5 percent.
Do.....	Port Neches, Tex.....	74,400	None.
Firestone.....	Akron, Ohio.....	24,000	Do.
Do.....	Lake Charles, La.....	79,200	Corduroy, 5 percent.
General.....	Baytown, Tex.....	39,600	None.
Phillips Petroleum.....	Borger, Tex.....	56,400	McCreary, 5 percent.
Esso Standard.....	Baton Rouge, La.....	27,600	Robbins, 10 percent.
Humble Oil.....	Baytown, Tex.....	38,400	None.
Total.....		663,600	Do.

Table No. 2 is a tabulation of the GRS synthetic-rubber plant operations and the annual fees presently payable to the operating companies, which in all instances are big business.



Table No. 2

Operating company	Rated capacity (annually)	Annual fee
	<i>Tons</i>	
B. F. Goodrich Chemical Co.....	150,000	\$1,562,400
Firestone Tire & Rubber Co.....	90,000	1,159,200
United States Rubber Co.....	90,000	1,159,200
Goodyear Synthetic Rubber Corp.....	90,000	1,159,200
Minnesota Mining & Manufacturing Co.....	75,000	1,058,400
Phillips Chemical Co.....	45,000	756,000
General Tire & Rubber Co.....	30,000	554,400
Copolymer Corp.....	30,000	554,400
Kentucky Synthetic Rubber Corp.....	30,000	554,400
Total.....	630,000	8,517,600

NOTE.—(1) The above shows the rated capacity. Actual capacity is expected to exceed the above by 20 percent, which would likewise increase the fees paid. (2) A lower fee basis has been proposed by Rubber Reserve, which if put into effect will reduce fees by more than 40 percent. (3) Total tonnage rates (and fees) should exceed the above figures shortly after Jan. 1, 1951. (4) The fees basis is shown in table II.

Table No. 3 shows the fees for synthetic-rubber plant operation.

Table No. 3

Past:	
First 15,000 tons, at 0.009.....	\$302,400
Second 15,000 tons, at 0.0075.....	252,000
Third 15,000 tons, at 0.0060.....	201,600
Fourth 15,000 tons, at 0.0050.....	168,000
Fifth 15,000 tons, at 0.0040.....	134,400
All excess, at 0.0030.....	
Future:	
First 15,000 tons, at 0.0055.....	184,800
Second 15,000 tons, at 0.0045.....	151,200
Third 15,000 tons, at 0.0035.....	117,600
Fourth 15,000 tons, at 0.0025.....	84,000
Fifth 15,000 tons, at 0.0015.....	50,400
All excess, at 0.0015.....	

On many occasions this committee has endeavored to work out a larger participation in this program for small businesses without impinging upon the freedom of private enterprise or sacrificing the interest of national security and defense needs. The Board of Directors of the RFC has consistently maintained that the Corporation has followed the announced practice of encouraging the smaller companies to come into the synthetic-rubber-production program, with a view to broadening the base of competition, having in mind the declared policy of Congress that there eventually should be a free competitive synthetic-rubber industry in the United States. However, under date of December 26, 1950, Mr. Walter Dunham, one of the Directors of the RFC, wrote in part as follows:

The Corporation has sought to implement the policy by designating the groups of companies which are called upon to undertake joint operation of individual production facilities. The share of the joint operations which each member of the group assumes, as well as the financial, business, and other terms of the joint enterprise, has been regarded as a matter for private determination between the respective parties. This approach to what is concededly a complex and somewhat delicate problem affords an opportunity for the encouragement of small business in the management of these plants, without impinging upon freedom of private enterprise or sacrificing the paramount interest of national security in the synthetic-rubber program, as contemplated in the policy provisions of the Rubber Act.

It is apparent from the above letter that the small rubber companies must contact the large companies which have been given the responsibility of operating the plants.

Every effort has been asserted by the officials of the smaller companies to participate in this program. Certainly it would be desirable, since the Government has financed completely the erection of the necessary plants and equipment, has borne all operating costs and expenses, including executive staffs, etc., and in addition has paid management fees running into millions of dollars, that every effort should be extended in order to give these unusual advantages to all groups and manufacturers, including large, medium, and small. It is certainly recommended that this policy be investigated thoroughly, with a view to implementing the heretofore expressed intent of Congress.

#### V. PLASTICS INDUSTRY

The problem in the plastics industry is one which appears peculiarly significant to your Small Business Committee, since, almost without exception, the processors of plastics materials are both small in size and recent in formation. This is particularly true of the subdivision of the industry composed of those who form finished plastics products by molding, especially injection molders. The following table, drawn from census figures of 1947, demonstrates the predominantly small character of the industry. While these statistics are 3 years old, your committee is assured that essentially the same situation prevails today.

TABLE I

Number of employees	Number of establishments	Percent of total	Cumulative percent	Number of employees	Number of establishments	Percent of total	Cumulative percent
1 to 4.....	434	31.9	31.9	100 to 249.....	86	6.3	96.8
5 to 9.....	272	20.0	51.9	250 to 499.....	20	1.5	98.3
10 to 19.....	223	16.4	68.3	500 to 999.....	18	1.3	99.6
20 to 49.....	209	15.4	83.7	1,000 to 2,499.....	5	.3	99.9
50 to 99.....	92	6.8	90.5	Over 2,500.....	1	.1	100.0

Total employees: Approximately 30,000; total establishments, 1,360; average employment per establishment, approximately 22.

Although the plastics industry was born in the post-Civil War days as a result of a shortage of ivory for billiard balls, its most rapid expansion has taken place in the 5 years following the conclusion of World War II. Technological advances, likewise, have proceeded apace and the variety of plastic materials now available is almost as striking as the growth of the industry since 1868.

A vivid impression of this growth may be gained from table II which high lights the progress of the business during the past few years. These data have been compiled by the industry's trade association and, while they are merely estimates, they do impart a valid delineation.



TABLE II

Year	Number of injection machines operative	Value of thermoplastic products	Number of compression machines operative	Value of thermosetting produce	Total value
1936.....	90	\$2,000,000	1,730	\$22,600,000	\$25,300,000
1937.....	180	5,400,000	3,000	36,700,000	42,100,000
1938.....	270	8,100,000	3,100	27,100,000	35,200,000
1939.....	360	10,800,000	3,250	36,300,000	47,100,000
1940.....	450	13,500,000	4,000	43,000,000	58,500,000
1941.....	900	29,000,000	6,619	69,510,000	98,510,000
1942.....	1,175	41,000,000	8,509	89,370,000	130,370,000
1943.....	1,300	42,959,000	9,456	91,680,000	134,639,000
1944.....	1,450	55,959,000	11,820	101,687,000	157,646,000
1945.....	1,600	73,452,000	12,000	97,033,000	170,485,000
1946.....	3,000	95,937,000	12,400	76,933,000	172,870,000
1947.....	3,100	99,021,000	12,600	92,028,000	191,049,000
1948.....	3,500	126,800,000	13,000	78,328,000	205,128,000
1949.....	4,300	153,200,000	13,100	62,662,400	215,862,400
1950.....	4,500	( <sup>1</sup> )	13,200	( <sup>1</sup> )	( <sup>1</sup> )

<sup>1</sup> Not available.

From table II, it becomes apparent that the gross value of molded plastics products have increased tenfold over a period of 13 years with the most vigorous growth being achieved by the injection molders whose product growth has been an amazing 7,500 percent. The molders alone now represent a quarter of a billion dollars annual industry, even though it is on them that your committee is focusing its attentions at this time.

Another graphic illustration of the rapid strides in the field of plastics is depicted in table III and in chart I which follow.

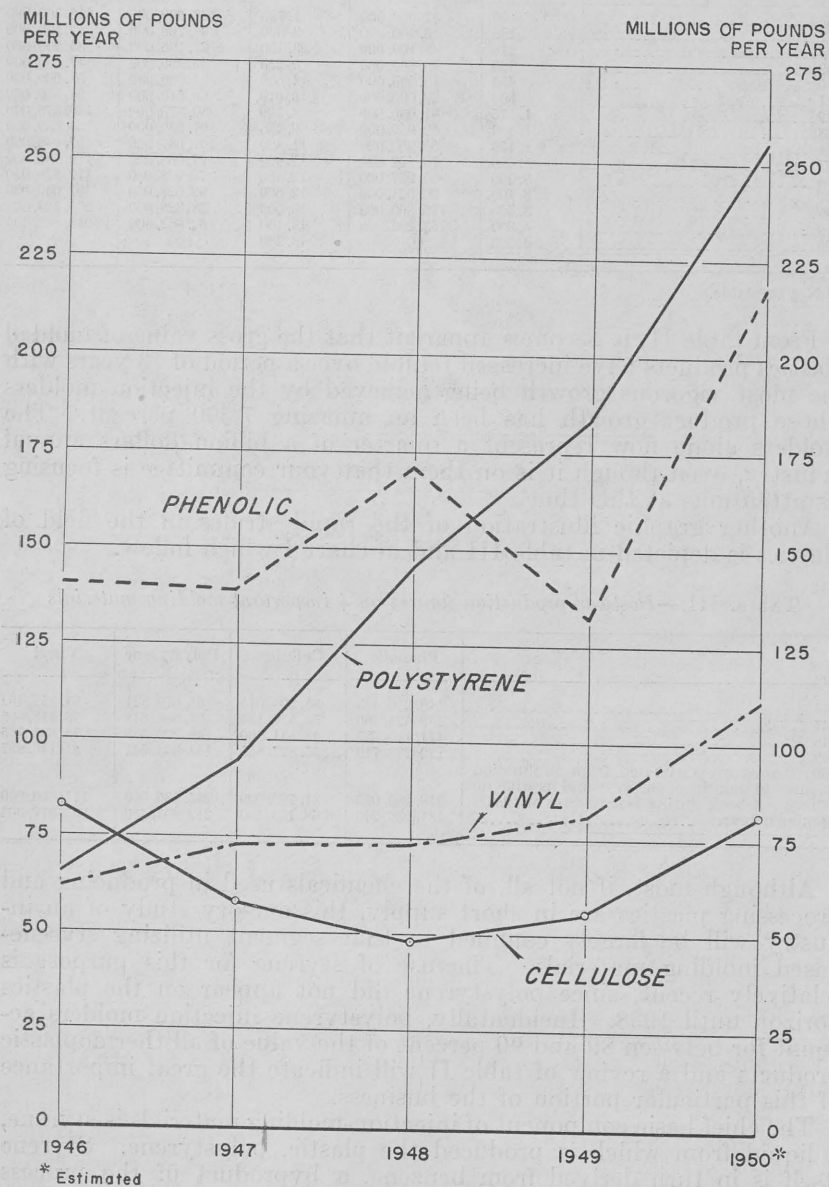
TABLE III.—*Postwar-production figures on 4 important molding materials*

	Phenolic	Cellulose	Polystyrene	Vinyl
1946.....	140,216,443	83,204,045	66,679,321	61,852,162
1947.....	139,624,466	58,524,134	94,990,618	73,113,605
1948.....	171,116,725	48,531,060	145,299,338	73,635,165
1949.....	132,283,719	55,827,855	183,884,041	81,146,997
1950 (figures are estimated from production figures 10 months of the year and assume no sharp cut-back during last 60 days of 1950).....	218,280,000	81,720,000	255,130,000	111,600,000
(10-month figures).....	181,936,240	68,133,580	212,604,450	93,077,564

Although most, if not all, of the chemicals used in producing and processing plastics are in short supply, this cursory study of an industry will be largely confined to that segment utilizing styrene-based molding materials. The use of styrene for this purpose is relatively recent, since polystyrene did not appear on the plastics horizon until 1938. Incidentally, polystyrene injection molders account for between 80 and 90 percent of the value of all thermoplastic products and a review of table II will indicate the great importance of this particular portion of the business.

The chief basic component of injection-molding materials is styrene, a liquid from which is produced the plastic, polystyrene. Styrene itself is in turn derived from benzene, a byproduct of the process which makes coke for the steel furnaces of the Nation. While ben-

# PRODUCTION OF FOUR MOLDING MATERIALS 1946-1950



zene may also be produced from petroleum, there are many difficulties and less than 5 percent of America's supply presently comes from that source. Since the bulk of the benzene supplies comes as a concomitant of the operations of the steel industry, there is no presently available procedure for increasing, to any appreciable extent, the amount of benzene. Incidentally, it might be noticed that all the recent announcements of expanding steel production will give only a 10-percent boost to our steel capacity and no more than a similar addition to the amount of benzene derived from that source.

Unfortunately for the plastics industry, however, styrene is also a most important ingredient in GR-S, the chief form of synthetic rubber. For that reason, the tremendous increase in synthetic-rubber production ordered following the outbreak of the Korean War curtailed drastically peacetime civilian uses of benzene derivatives.

From 1938 until the initiation of the synthetic-rubber program by the Government during World War II, the plastics industry was the sole producer and user of styrene. Following the end of the war, the cut-back in the use of styrene for GR-S was largely offset by the enormous expansion in the use of polystyrene for plastic molding material. Table III and chart I dramatically portray this fundamental fact. For this reason alone, the styrene plants of the Nation were kept at almost capacity production throughout the 5 years between VJ-day and the fall of 1950. As a result, the reverses of another war in Asia and the implied threat to our natural rubber supplies find our synthetic-rubber program far less costly and time-consuming than it would otherwise have been.

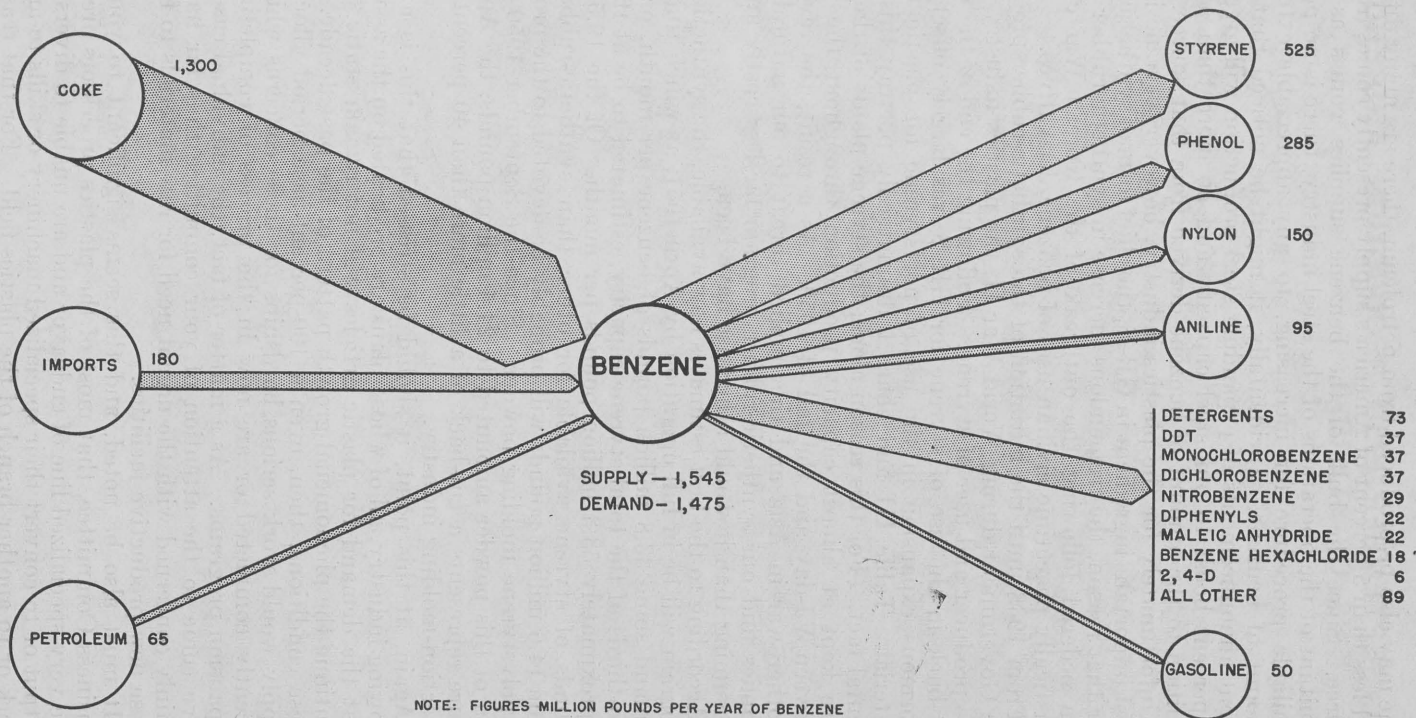
According to the best estimates now available, the synthetic-rubber program will be in full operation by April 1951, at which time it will demand some 33.8 million pounds of benzene per month, or almost two-thirds of the total styrene capacity, estimated to be at that time approximately 53.3 million pounds per month. Of the 19.5 million pounds of styrene available for other than synthetic-rubber uses, some 14.6 million pounds will probably be devoted to the production of polystyrene molding powder. Since the September 1950 production of this powder amounted to 24.5 million pounds, the April 1951 figure represents a cut-back of a little more than 40 percent for the injection-molding industry.

Again, at this point, it should be stressed that this is a rapidly growing industry, all of whose plans are predicated on the assumption that the demand for plastic articles will not remain static, but will continue the phenomenal growth pattern of the past decade. Under these conditions, then, even a 100-percent-base period allocation of supply would work serious hardships for those concerns which have recently completed or are now in the process of completing large expansion programs. As a matter of fact, the individual cases which have come to the attention of your committee thus far have been mainly concerned with the urgent need for raw materials to feed into these new productive facilities.

It must also be noted, and this seems significant to your Small Business Committee, that most of the plastics processors are in only one very specialized line of endeavor and are unable to diversify their output or to convert their specialized machinery or skills to any other work or to another branch of the plastics field. For that reason, any

# BENZENE · FLOW CHART

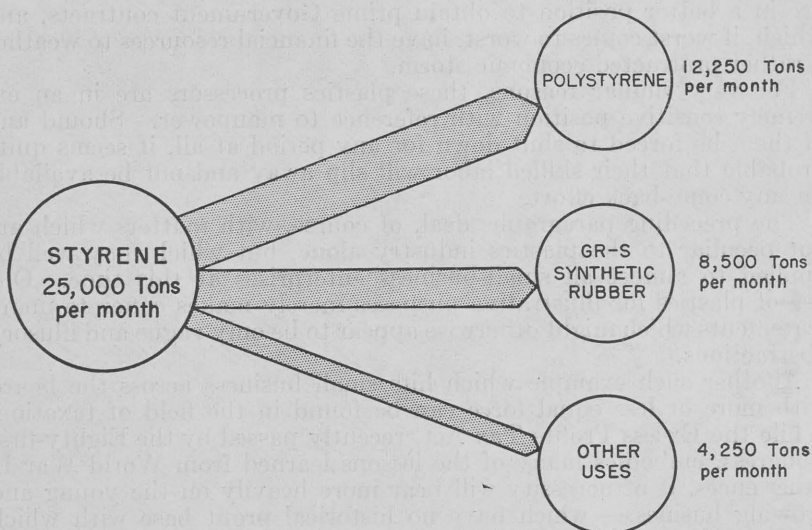
## U.S.A. SUPPLY AND END USES



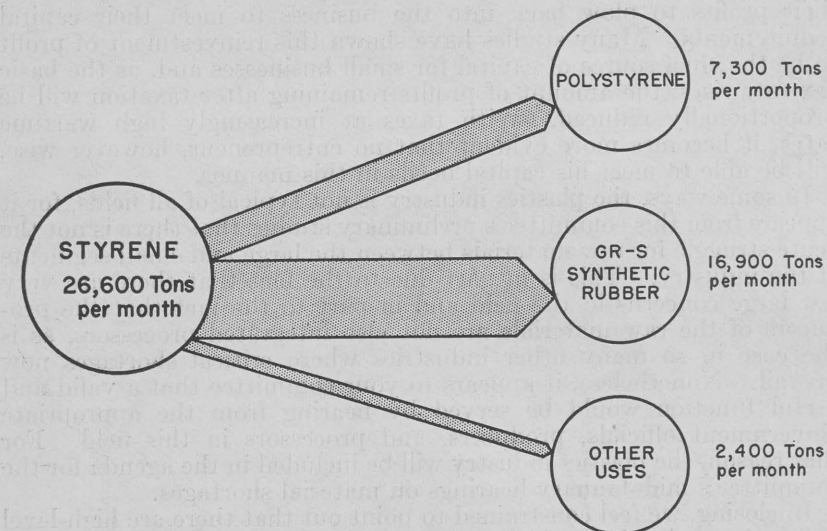
NOTE: FIGURES MILLION POUNDS PER YEAR OF BENZENE



## A. SEPTEMBER 1950 PRODUCTION AND END USES OF STYRENE



## B. ESTIMATED APRIL 1951 PRODUCTION AND END USES OF STYRENE



severe cut-back in the raw materials used by these molders will cripple them almost immediately and will put them out of business soon after their production falls below the break-even mark. This, of course, contrasts strongly with the large enterprises which are able to diversify their output, which work in many fields and in many materials, which are in a better position to obtain prime Government contracts, and which, if worst comes to worst, have the financial resources to weather a rather protracted economic storm.

For very similar reasons, these plastics processors are in an extremely sensitive position with reference to manpower. Should any of them be forced to shut down for any period at all, it seems quite probable that their skilled labor will slip away and not be available for any come-back effort.

The preceding paragraphs deal, of course, with matters which are not peculiar to the plastics industry alone, but which may well be applied to almost all small-business enterprises at this time. Our use of plastics for illustrative purposes merely makes concrete many statements which might otherwise appear to be only vague and illusory abstractions.

Another such example which hits small business across the board with more or less equal force can be found in the field of taxation. While the Excess Profits Tax Act, recently passed by the Eighty-first Congress, embodies many of the lessons learned from World War II experiences, it of necessity will bear more heavily on the young and growing businesses which have no historical profit base with which to meet the burdens of emergency taxation. Alternative methods for computing this tax liability have been provided within the law, but none will effectively reduce its impact on many small concerns. Even those firms which escape the excess-profits tax because of profits below \$25,000, moreover, will not be exempt, for it seems inevitable that higher taxes will affect all companies in the very near future. Furthermore, it is these really small enterprises which often need all their profits to plow back into the business to meet their capital requirements. Many studies have shown this reinvestment of profit to be the chief source of capital for small businesses and, as the basic tax rate rises, the amount of profits remaining after taxation will be proportionally reduced. With taxes at increasingly high wartime rates, it becomes more evident that no entrepreneur, however wise, will be able to meet his capital needs in this manner.

In some ways, the plastics industry is not typical of all fields, for it appears from this committee's preliminary studies that there is not the acute struggle for raw materials between the large and small segments of the industry. This is in part due to the fact that there are very few large concerns in the field and in part to the fact that the producers of the raw materials are not also integrated processors, as is the case in so many other industries where critical shortages now prevail. Nonetheless, it appears to your committee that a valid and useful function would be served by hearing from the appropriate Government officials, producers, and processors in this field. For that reason, the plastics industry will be included in the agenda for the committee's mid-January hearings on material shortages.

In closing, we feel constrained to point out that there are high-level policy determinations which must be made before the full impact of

the rearmament effort on the plastics industry can be estimated. The chief example arises in connection with the role of plastics vis-à-vis rubber. Data which have come to the attention of the committee indicate that in 1951, so much more new rubber (natural and synthetic) will be available that it appears unlikely that military uses and stockpiling will absorb the surplus over the 1950 consumption figures. While this committee does not intend at this time to reexamine the entire rubber situation and while it realizes full well the crucial role played by rubber in an emergency period, it does wish to point out that simple justice as well as the national defense dictates that no one commodity or industry should bear an inequitable share of the burden. Plastics, too, are vital in many fields and, both directly and indirectly, will be called upon to advance our military preparedness program. Should a hasty or ill-considered decision be made, it may spell bankruptcy and the end of many of these small concerns which have no alternative products and which cannot utilize substitute materials. In that event, they will not be available to make the very important and substantial contributions to the defense effort which they alone are in a position to make.

The Senate Small Business Committee hopes that its pending hearings will present the facts of the situation in such perspective that those responsible for the final decisions will be in a better position to judge and to administer wisely.

#### VI. PARTICIPATION IN GOVERNMENT PROCUREMENT BY SMALL BUSINESS

##### 1. *Hearings*

Immediately following its organization, your committee scheduled a series of hearings with the announced purpose of exploring, insofar as possible, the exact situation with reference to small-business participation in Government contracts and Government procurement and the availability of credit to small business.

In an effort to implement the stated congressional policy that small-business men be afforded every opportunity to participate in Government procurement, your committee undertook to make a thorough study of the present procurement policies with a view to disclosing weaknesses, as well as exploring the field with a view to aiding the Senate to enact remedial legislation.

As an example indicative of the multitudinous problems which are present in Government procurement, Rear Adm. M. L. Ring, Director for Supply Management, Munitions Board, in testimony before the committee, indicated that the Department of Defense procured over 5,000,000 separate items in World War II. Expanding on this problem, Admiral Ring further stated:

We hope to reduce, Senator, our load from something like 5,000,000 to about 2,500,000. The cataloging program is a very vast one. Prior to the war, in the Federal Standard Stock Catalog, if my memory serves me, we had something like 350,000 items. Those were the standard common-use items and did not include that very vast range of technical materials which had to be introduced into the military supply system as the result of World War II. All the spare parts for airplanes, the spare parts for internal-combustion engines, the spare parts for the whole vast field of radar and electronics, communications equipment. It is because we are trying to include the technical spare parts and the basic component into our supply system that we have this vast build-up from the approximately 350,000 to what we hope will be 2,500,000.

In addition to the above-stated problem, Admiral Ring further pointed out that there perhaps would be eighteen to twenty thousand different sets of specifications which would be publicized through the departmental outlets.

The Department of Commerce indicated that the Department's work in behalf of small business, as carried on by the Small Business Division of the Office of Industry and Commerce, falls under the following four broad heads:

- I. Government procurement.
- II. Management assistance.
- III. Finance and tax problems.
- IV. Business practice problems.

In response to a question with regard to the drafting of specifications and bid invitations so that smaller firms may have an equal chance in meeting requirements, H. B. McCoy of the Department of Commerce stated:

We want to see that there is nothing in the specifications that will prohibit any firm from participating. It is our desire that small business may participate fully without any discriminatory clauses or conditions which would prohibit that.

First of all we review the development of specifications as they are being prepared. Second, we participate in the review. Third, in any allegations in a specific case we proceed to prepare the actual factual data and bring about remedial action where discrimination exists.

This statement is in line with the expressed desire of both the Department of Defense and the General Services Administration to standardize specifications wherever possible in order to conform to generally accepted commercial standards. This should result in increasing the number of small business concerns which will be able to bid for Government contracts and, as a result of increased competition, lower prices may be obtained.

Maxwell Elliott, general counsel of the General Services Administration, indicated that the following steps should be effected in order to further the interest of small business concerns:

1. It is expected that the program of dissemination of information through the Department of Commerce facilities will be expanded so that information concerning Government requirements will reach approximately 2,500 locations. In addition, there is under consideration a plan to reduce the amount of time required for the information to reach the ultimate sources by using TWX facilities where possible.

2. It is contemplated that within a short time the provisions of the order which give preference to small business in connection with tie bids will be extended by regulation to govern the procurement activities of all civilian agencies. The Department of Defense issued a similar order covering its procurement at the same time the order covering General Services procurement was promulgated.

3. A statement of the policies to be followed by executive agencies in aiding small business in procurement has been drafted and is in the process of revision for early issuance. Participation of small business in Government procurement is to be encouraged by carrying out the following policies:

- (a) Requirements shall be divided into such reasonably small lots as will permit small business concerns to bid;

- (b) Bids on less than total quantities specified will be permitted;

- (c) Time for submission of bids will be determined with the interests of small business in mind;

- (d) Purchases will be scheduled and awards will be distributed on a local or decentralized basis to assist small business; and

- (e) Information concerning invitations to bid shall be distributed widely.

4. In connection with the development and revision of Federal specifications by the General Services Administration, increased effort will be made to conform the specifications to generally accepted commercial standards. It is felt that



this will result in increasing the number of small business concerns which will be able to bid for Government contracts and that as a result of increased competition lower prices may be obtained.

5. The General Services Administration has already delineated the areas which will be served by its 10 integrated regional offices, and to these offices there will be decentralized a large measure of procurement responsibility. It is planned that so far as practicable each such regional office will be responsible for the procurement of the Government's requirements in that region. This should afford small business concerns in that region a greater opportunity to bid for a part of the Government's requirements. Decentralization permits taking full advantage of local markets and provides points of supply closer to points of use.

6. Technical advice and assistance will be available in each regional office for the small business concerns with respect to Government specifications and requirements. This will materially help the small business concern which is unable economically to maintain its own technical staff. In addition, there will be located in each regional office personnel especially trained to render assistance and supply information to small-business men for their general use.

The above presents a series of perplexing problems with which the small-business man has been confronted and which your committee and the procurement agencies of the Government are examining. It is hoped that from these hearings and those to follow, many of the policy weaknesses of the Government procurement agencies can be remedied in the interest of all business. Your committee has endeavored to disclose such weaknesses and shall be diligent in its future endeavors to prevent the recurrence of such mistakes which have been made and which have adversely affected the small-business man.

Your committee plans to continue working with the various procurement agencies, either through conferences or formal hearings, in order to help maintain the economic stability and preserve to the small-business man his rightful place in our economy.

## *2. Marshall letter*

One of the most heartening signs pointing to the fullest possible participation by small business in the war procurement program was a directive issued on December 18 by Secretary of Defense George C. Marshall to the military departments in which the urgent necessity of spreading the work among small plants was strongly emphasized. Such a top policy pronouncement coming so early in the current defense effort marks considerable improvement in the attitude of the armed services toward small business in comparison with the general big business sympathies displayed by the military in the earlier stages of World War II. Secretary Marshall's letter seems worth noting in full:

DECEMBER 18, 1950.

Memorandum for The Secretary of the Army.  
The Secretary of the Navy.  
The Secretary of the Air Force.

Subject: Broadening the industrial base of procurement programs.

The President has declared a national emergency. The issuance of this declaration permits the Secretaries of the military departments to authorize the negotiation of purchases and contracts pursuant to the authority contained in section 2 (c) (1) of the Armed Services Procurement Act of 1947. The Munitions Board has recommended, and I have approved, the following statement of policy:

The military departments have already received instructions to accelerate procurement actions in connection with second supplemental 1951 funds. It is essential, in complying with these instructions, that contracts be spread across industry as widely as possible in order to broaden the industrial base of our procurement program. Broadening the base will require wider use of negotiation. Formal advertising will continue to be used in appropriate cases, but not when such use will adversely affect the acceleration of procurement or the broadening of the industrial base contemplated by this directive.

The military departments should pay particular attention to—

(a) The greatest possible integration of current procurement contracts with the industrial mobilization program and the accepted schedules of production.

(b) The equitable distribution of procurement contracts among the maximum number of competent suppliers. The concentration of contracts with a few leader suppliers is to be avoided unless the necessity therefor is clear.

(c) The utilization of existing open industrial capacity to the maximum. Expansion of facilities should not be authorized when open capacity can be found. Whenever time permits, and in order to broaden the mobilization base, additional contractors should be utilized in lieu of multishift or overtime operation.

(d) The fullest possible use of small business concerns.

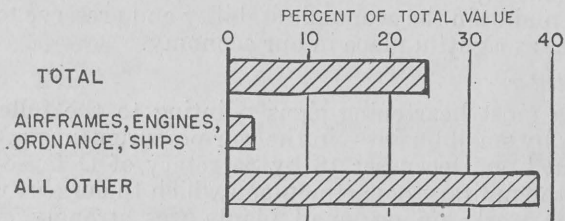
(e) The utilization in negotiation of competition and multiple awards whenever possible.

(f) The aggressive encouragement or requirement of subcontracting by prime contractors.

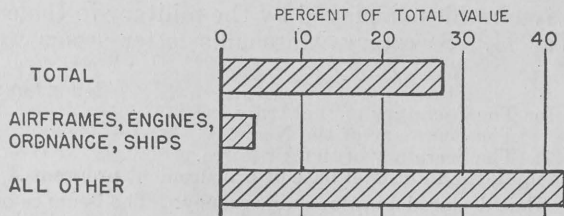
(g) The provision of maximum incentive to the producer for the reduction of his costs.

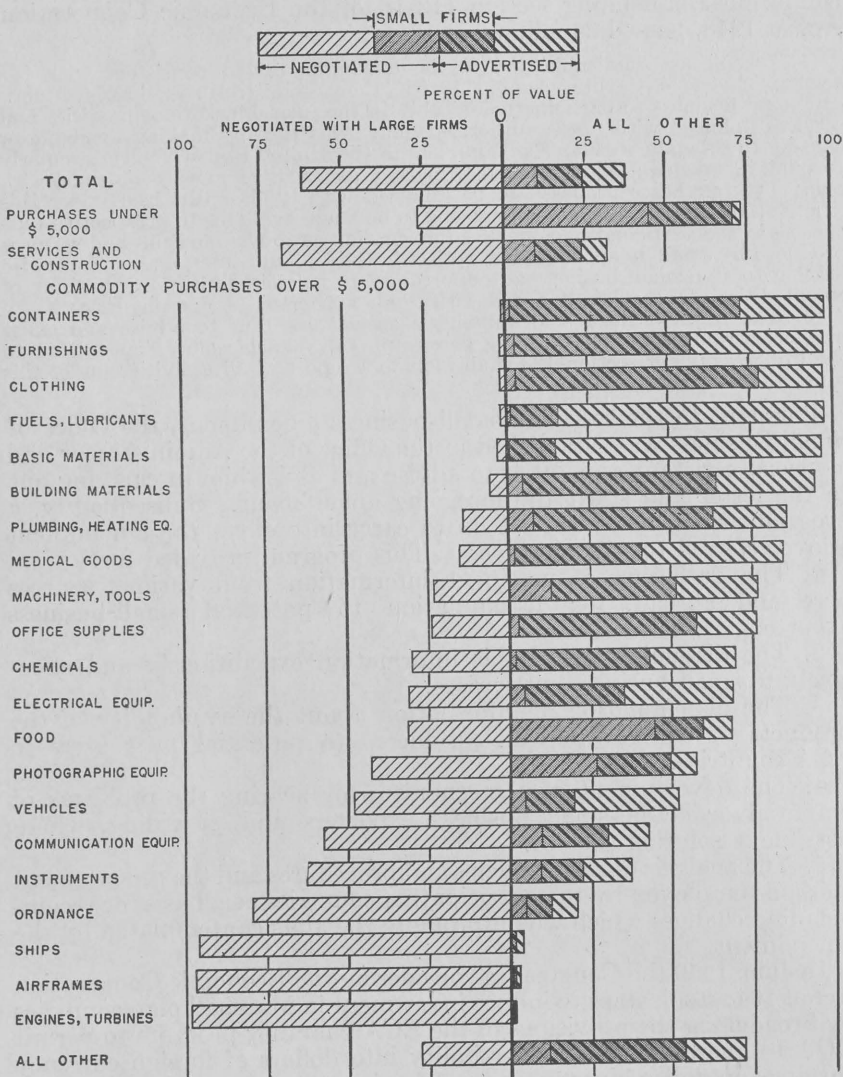
#### MILITARY PURCHASES IN FISCAL YEAR 1950 CONTINENTAL U. S.

##### PURCHASES FROM SMALL BUSINESS



##### PURCHASES BY FORMAL ADVERTISING





### 3. *Economic Cooperation Administration aids to small business*

In 1949 the Congress, in considering the extension of the Economic Cooperation Act of 1948, took steps to insure the participation of small business in ECA-financed programs by giving this congressional intention statutory status. On April 19, 1949, the Senate-House compromise, amending section 112 (i) of the Economic Cooperation Act of 1948, passed as follows:

(1) Insofar as practicable and to the maximum extent consistent with the accomplishment of the purposes of this title, the Administrator shall assist American small business to participate equitably in the furnishing of commodities and services financed with funds authorized under this title by making available or causing to be made available to suppliers in the United States, and particularly to small independent enterprises, information, as far in advance as possible, with respect to purchases proposed to be financed with funds authorized under this title, and by making available or causing to be made available to prospective purchasers in the participating countries information as to commodities and services produced by small independent enterprises in the United States, and by otherwise helping to give small business an opportunity to participate in the furnishing of commodities and services financed with funds authorized under this title.

(2) The Administrator shall appoint a special assistant to advise and assist him in carrying out the foregoing paragraph (1). Each report transmitted to the Congress under section 123 shall include a report of all activities under this subsection.

Pursuant to the so-called small-business amendment, the Office of Small Business was established in the Office of the Administrator and a special assistant appointed to advise and assist him in carrying out to the letter and spirit the foregoing amendment. Subsequently, a program which had been set up to carry into effect the amendment above referred to was approved. This program provided for:

1. The gathering of pertinent information from various sources here and abroad, for dissemination to potential small-business exporters.

2. The dissemination of this information expeditiously and effectively to small-business enterprises.

3. The dissemination of information about the availability of the products of small American producers to potential purchasers in ECA countries.

4. The development of a mechanism for hearing the problems of potential or actual-small business exporters and providing, where possible, a solution thereto.

5. The analysis of ECA policies and procedures and the procurement methods employed by the participating countries as a basis for recommending changes which would promote the aims contemplated by the amendment.

In June 1950 the Congress in considering the Economic Cooperation Act of 1948, took steps to induce investment in Marshall plan countries by broadening the provisions of the ECA guaranty program to permit ECA to guarantee the convertibility into dollars of foreign currency earnings on dollar investments and foreign currency receipts from the investment of patents, techniques, and processes. Pursuant to the passage of this legislation in June 1950 and with the view of assisting American small and independent enterprises in locating foreign firms in Marshall plan countries interested in entering into a licensing arrangement, the ECA's Office of Small Business established a "contact clearinghouse," the function of which is to put American manufacturers in touch with receptive European companies and vice versa.



The establishment of this service constituted the only major revision in and addition to the original program approved pursuant to the small-business amendment.

In accordance with the small-business amendment of 1949, the Office of Small Business laid out a program designed (1) to obtain advance information on proposed purchases under ECA financing, (2) to find the means of getting this information to small business enterprises, (3) to inform firms abroad of the commodities and services available from small business enterprises in this country, and (4) otherwise help small business to participate in the ECA programs.

The ECA field counseling program provides small-business men who may be interested in doing business under the Marshall plan with practical, personalized consultation in their own local communities. The counselors are recruited largely through locally sponsored meetings and through a series of small business clinics, which were sponsored by the Senate Select Committee on Small Business.

In 1950 field counseling organizations, recruited through the assistance and cooperation of foreign governments, were instituted in Europe to assist small American manufacturers to find western European companies interested in obtaining American techniques, patents, and processes under ECA's investment program.

At the end of 1950, field counseling organizations had been established in Austria, Belgium-Luxemburg, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Sweden, and the United Kingdom. Additional counseling organizations are expected to be set up in Norway, Portugal, and Trieste.

In considering the Foreign Assistance Act of 1950, the Congress took steps to insure greater participation of small business in the Marshall plan program by means of broadening the provisions of the guaranty program to provide convertibility into dollars of foreign currency earnings on dollar investments and foreign currency receipts from the licensing of patents, techniques, and processes. ECA decided to sponsor a licensing program designed to effect contact between western European and American manufacturers interested in entering into licensing arrangements. To cope with trade barriers and meet these markets, some United States manufacturers, both before and since the war, have successfully established their own branch factories and sales organizations abroad. The heavy investment required and other risks involved, however, makes this method generally practical only for larger United States companies with considerable experience in foreign operations.

In order for an American concern to take advantage of this licensing service, it registers its interest with the Office of Small Business, ECA, giving particulars of its proposal. ECA, through its European field counselors, then explores the foreign industrial field for the American concern and attempts to find foreign manufacturers interested in such a proposal. The resultant negotiations are strictly a private matter between the American firm and the European manufacturer, dealing directly with each other, according to ordinary business procedures. It should be noted, however, that if an American concern wishes to take advantage of the United States Government guaranties covering its investment either of a tangible or intangible nature, application for such protection must be approved by ECA and also

by the foreign government concerned before an agreement is concluded with a foreign manufacturer. Such applications for guaranty coverage are directed to the Economic Cooperation Administration, Industry Division, Industrial Guaranties Branch, 800 Connecticut Avenue, Washington, D. C.

#### 4. *Pooling*

One of the most hopeful, but least fruitful, of all proposals put forward during World War II to integrate the capacity of the smaller producers into the "arsenal of democracy" was the procedure whereby several small firms would combine their skills and resources in order to jointly serve as a prime contractor. Under a pooling arrangement, firms which individually lack the facilities and "know-how" to obtain prime contracts would be enabled to do so through their united efforts. These pools could be composed of a number of small firms in a single line of endeavor (who thereby increase their capacity) or of a number of companies operating in different fields (who thereby multiply their technical and managerial skills). While very obvious problems naturally arise from this plan of pooling, it was nonetheless the feeling of many small-business men and their adherents that this operation would be preferable to a complete dependence upon subcontracting, and would serve those small businesses in an area where there was no large and established firm receiving multimillion contract awards.

In his account of his experiences with the rearmament effort during World War II, Donald M. Nelson recalled several very successful pooling operations and pointed out how helpful they had been both to the individual firms and to the Government. On the other hand, it was apparent to Mr. Nelson that pooling did not serve as a complete answer during the past war as shown by his own words:

This movement spread all over the country, and it is too bad that only a relatively small percentage of all manufacturers were able to take advantage of this effective arrangement.

Your committee feels that vigorous action should be undertaken to explore this entire subject, for we feel that there are many small producers who are heavily penalized in competing for Government contracts at this time. While we realize full well that pooling is only a part of the answer, we do not feel that it should be ignored for that reason. Every step we take has profound repercussions and the mere announcement that Government procurement offices were to cooperate fully with local or regional pools should have a most beneficial effect.

We have been informed that a memorandum or study on pooling has already been prepared for the Defense Department and that it is now awaiting action by the Armed Services Procurement Regulation Committee, an interdepartmental coordinating group. We urge incisive and speedy approval of this plan by the Committee and by all other instrumentalities of the Defense Department concerned with the procurement picture.

#### 5. *Legislative aspects*

The wisdom of the Congress in establishing in June 1942, a separate agency of Government to guard the interests of small enterprises was amply confirmed by the record of the Smaller War Plants Corporation. The accomplishments of this organization are well known. Through its efforts, American small-business men set a production record which

undoubtedly helped materially to shorten World War II. It is estimated that small manufacturing establishments contributed 30 percent of the total war production. As a result of the aggressive insistence of SWPC, billions of dollars worth of production prime contracts were awarded to small plants. In a typical 2-month period, April-May 1945, approximately 600 prime contracts with a value of \$750,000,000 were placed on the order boards of small plants. From its revolving fund, the Smaller War Plants Corporation also provided small companies with \$550,000,000 in capital necessary to finance their war contracts.

This point of view is borne out by the following language from The United States at War, compiled by the War Records Section of the Bureau of the Budget:

As more and more materials were drawn into high priority armament production, dislocations began to be felt in the industrial system. Small business concerns and their spokesmen became more vocal as time went on and protests were heard that procurement officers discriminated in favor of large enterprise in the award of contracts. Large concerns did receive the lion's share of war business but whether they received a share disproportionate to their share in peacetime production is difficult to calculate. Moreover, it is probable that the immediate impact of the change-over from normal production to defense production struck little business harder than it did big business. A considerable time lag was inevitable before subcontracts filtered down to small concerns. Whatever one concludes from the tangled mass of fact, the failure to plan and organize adequately for utilizing the facilities of small concerns illustrates a type of difficulty often overlooked by mobilization planners.

It was with these lessons from World War II still fresh in mind that a bill was introduced in the Senate during the Eighty-first Congress known as the Small Business Defense Plants Act of 1950. This bill was carefully designed to avoid defense production pitfalls by assuring small business the opportunity to play its rightful defense role from the start.

The principal points of this proposed legislation on behalf of the small-business man may be summarized as follows:

*Organization.*—An agency, the Small Defense Plants Corporation, would be established. There will be a governing board of five directors. Two of these directors must have been engaged exclusively in private small business enterprise for at least 10 years. The other three members would be drawn from the ranks of labor, agriculture, and the general public. Unless conditions warrant otherwise, the corporation will terminate on June 30, 1952 (the expiration date of the Defense Production Act of 1950).

*Banking powers.*—The corporation will be empowered to make loans to small concerns to enable them to finance plant construction, conversion, or expansion for defense or essential civilian production. Advances may also be made to help small firms acquire facilities, equipment, machinery, supplies, and materials. These banking services will be made possible by use of a revolving fund not to exceed \$500,000,000.

*Contracts—general.*—Having assured that adequate funds and productive facilities will be available to small companies, the bill further provides several means of assisting them to get into the procurement picture. These methods include:

1. To make an inventory of the production facilities of small concerns which can be used for defense or civilian requirements.
2. To cooperate actively with procurement officers in order to make maximum utilization of small-business facilities.
3. To urge large prime contractors to let the maximum amount of subcontracts to small firms at prices and on conditions which are fair.
4. To determine, within specific industries, which firms for the purposes of the act should be considered "small-business firms."
5. To obtain reports from Federal procurement or financing agencies on the letting of contracts and subcontracts and the making of loans to small plants.

6. To obtain from suppliers of materials information concerning their methods of filling orders and of allocating their supply whenever it appears that small companies have been unable to get materials and supplies to fulfill their contracts.

7. To make studies and recommendations to Federal agencies to insure a fair and equitable share of materials, supplies, and equipment for small plants.

8. To consult and cooperate with all agencies of Government in behalf of small-business interests.

*Contracts—prime.*—The corporation is authorized to act as a prime contractor with Government procurement offices for the purpose of, in turn, subletting awards to qualified small plants.

*Certification.*—When procurement officers hesitate to let an award to a small-plant because of doubt that the small plant is capable of fulfilling the contract, they must, under the terms of the bill, accept the certification of the corporation as to the capacity and credit of any small plant or group of small plants.

It may seem from the foregoing that the proposed legislation reflects the policy of Congress that a fair share of Government contracts shall be placed with small concerns.

#### VII. NEW ENGLAND FUEL SURVEY

By Senate Resolution 344, adopted September 15, 1950, the Senate Select Committee on Small Business was directed to conduct a full and complete inquiry into the adequacy of fuel supplies in New England for the winter of 1950–51 with particular reference to the needs of small and independent business, and to report its findings and recommendations to the Senate not later than December 15, 1950. For this investigation a subcommittee was designated consisting of Senator Benton as chairman, and Senators O'Connor, Long, Tobey, and Saltonstall. This subcommittee directed the staff of the committee to make a thorough investigation. Your committee submitted a preliminary staff report on October 21 and its final report to the Senate on December 14.

Although the time available was limited, the investigation was not confined to Washington sources of information but included staff investigations in the New England area. In all instances, the fuel industries, as well as Government agencies, were fully cooperative in providing requested data and in giving your committee the benefit of their views as to the present and prospective fuel situation.

The importance of adequate fuel supplies to New England, entirely dependent as it is upon outside sources of supply, scarcely needs to be emphasized.

#### *Summary of findings*

From the investigation, it was indicated that the fuel-supply situation for New England is for the most part satisfactory and that there need be no shortage condition provided certain practicable adjustments were made by the primary suppliers of heating oils, and unless there were a worsening of the international situation. If mining operations continued without interruption, there should be adequate supplies of coal for New England. While the necessity for a full-scale emergency mobilization obviously would affect profoundly the Nation's whole fuel economy, the consequences of such conditions were beyond the range of the report. The survey as brought down to the early part of December 1950 did not find reason for undue concern as to the fuel prospects for New England this winter. However, considering the variable and unpredictable factors which are inherent in the problem, no one properly could give complete assurance that fuel supplies would be entirely adequate for any and all eventualities, especially in view



of the recent developments in the Far East. As past experience shows, there could also be localized trouble spots even with generally adequate supplies.

With most of the winter still ahead, it could not be asserted that no fuel-supply problems would arise. There were, however, some indications of improvement in the situation since the initial investigation was made in October, owing partly to relatively mild weather in New England and also to the increases in refinery yields of distillate fuel oils which were recommended in the October report. Consequently, terminal stocks of the heating oils were in somewhat better relation to the corresponding levels of 1949 than they were in September and October. Continuing vigilance and action by the suppliers to keep these stocks at safe levels over the next several months is essential. New England coal stocks had likewise grown with a continuing flow of supplies and with demands affected by the mild weather conditions previously noted.

#### VIII. CHICAGO FUEL INVESTIGATION

Your committee was petitioned by a number of independent fuel dealers in Chicago to make a complete investigation of an alleged attempt by large producers to force independent companies out of business. Following a preliminary staff investigation, a hearing was held by Senator Russell Long and Senator Andrew Schoeppel in Chicago on December 14, 1950, at which testimony was received from the major companies and the wholesale jobbers as well as from the independents.

Representatives of the independent fuel-oil dealers in Chicago complained that their price margins had been so reduced since August 1950 as to seriously threaten their continued existence as small business enterprises, and they alleged that this squeeze represented a deliberate effort by the major companies and the wholesale bulk jobbers to eliminate the independent distributors.

An "independent" in this sense is a retail dealer who buys his supplies from the major oil refineries and/or wholesale bulk jobbers, typically operates one to five trucks, and distributes range and furnace oils to consumers mainly for space heating. Fifty-seven sworn letters addressed to the National Federation of Independent Businessmen were submitted for the consideration of the select committee.

It was estimated that there are 300 to 350 independent fuel-oil dealers in the city of Chicago, and approximately 750 in the entire metropolitan area bounded by Hammond, Ind., to the south and east, Rockford, Ill., to the west and the Wisconsin line to the north.

These independent dealers estimated that their aggregate sales amount to approximately 100,000,000 gallons of fuel oil a year in the Chicago area, but they do not know what proportion of the total market this represents. It is generally known, however, that the major oil companies and the wholesale bulk jobbers also engage extensively in the field of retail distribution.

The independent dealers alleged that their suppliers, by concerted action, have for several years been trying to eliminate the competition of the independents. In the winters of 1946-47 and 1947-48, they contended that alleged shortages were used by the majors and the jobbers as justification for reducing supplies made available to the independents, while these same suppliers continued to serve their own retail customers and even to take on additional customers,

largely pirated from the independent dealers who were denied access to supplies. The spokesmen for the independents in Chicago said that the investigation conducted by the Senate Small Business Committee of the Eightieth Congress under Senator Kenneth Wherry was very helpful in improving their situation at that time.

At the present time, the problem of the independent appears to be one not so much of supply as of price margin, which has been reduced from 2 cents a gallon to 1.7 cents. The independents state that on August 28, 1950, the wholesale price of fuel oil was increased by 0.3 of a cent. On September 25 the retail price was increased by 0.5 cent a gallon, but on September 28 the wholesale price again increased by 0.5 cent without a corresponding adjustment of the retail price. Thus, the present gross margin on which the independents are operating is 1.7 cents a gallon, whereas it had been 2 cents for several years previously.

The independents contend that since wholesale price changes have usually been accompanied heretofore by equivalent adjustments of retail price, the present situation represents an effort to freeze out the small independent dealers who engage only in retail distribution as contrasted with the refineries and the wholesale jobbers who can and do derive profits from other operations. The independents seem to be uncertain as to whether it is the major integrated oil companies or the wholesale jobbers who are primarily responsible for this alleged price squeeze.

As to the effect on their own situation, the independents vigorously assert that they cannot operate on a 1.7 cent margin. They point out that with this reduction their gross profit margin on sales has been cut to 12.3 percent, as compared with 16.25 percent in 1949. The result, they say, is to wipe out their margin of net profit after taking account of operating costs. They further state that their financial position would be impaired even with the previous dealers' margin of 2 cents a gallon, owing to generally rising costs for such items as trucks, tires, maintenance, gasoline, driver wages, taxes, insurance, and telephone bills. To compensate for these inflations of costs, they suggest that their gross profit margins should be greater than 2 cents rather than less.

The independent dealers offer further evidence of an attempt to force them out of business. They say that the major companies and wholesale jobbers are offering to take over the accounts of the independents and then to engage the services of these independent dealers on a cartage basis as hired agents of the big companies. This the independents are in most instances unwilling to do, because it would mean a forfeiture of their own business good will developed through hard work and expenditures and a loss of their status as independent small-business men.

They also cite that the major companies and wholesale jobbers offer to pay continuously a commission of one-half cent a gallon to heating contractors who install oil burners and obtain the fuel oil account for the service company. The independents state that they are unable to offer a similar commission, and that the big companies cannot afford this practice either except as a temporary device designed to put the independent dealers out of business. They further assert in this connection that the major companies and wholesale jobbers, as well as the independent dealers themselves, lose money on their retail operations under a distribution margin of

only 1.7 cents, and that the holding of such a margin must be explained as an effort to eliminate the competition of the independent dealers who are entirely dependent on the retail margin for their solvency and who cannot draw upon other sources of profit to offset losses suffered in retail distribution.

The subcommittee is in the process of preparing its report and recommendations to the full committee on its investigation.

#### IX. SOFT DRINK BOTTLING INDUSTRY

More complaints about conditions in the soft drink bottling industry have been received by the Senate Select Committee on Small Business than about any other single industry. The complaints are not new ones, for the Small Business Committee of the Eightieth Congress, headed by Senator Kenneth Wherry, started an investigation of the soft drink industry in 1948 and sent out questionnaires to some 6,000 bottlers to find the source of the difficulties in the bottling industry. Senator Wherry's final recommendations of his Small Business Committee stated that—

a continuation of the soft drink investigation, commenced by the Senate Small Business Committee in the final months of its existence, should be one of the first items of business of any successor to the functions of the present Small Business Committee.

The staff of the present Small Business Committee, at the direction of the chairman, Senator John Sparkman, acted upon Senator Wherry's recommendation and undertook a survey of the soft drink industry. The conditions in this field were found to be far worse than they were in 1948 when the original investigation began. At present, two-thirds of the 6,500 bottlers are either losing money or barely managing to break even. The detailed reasons for this anomalous economic condition when the rest of the country is at the height of prosperity, are: First, most of them cannot ask more than the classic nickel for a soft drink and compete against bigger bottling companies which are subsidized by their parent organizations and thus able to absorb operating losses resulting from selling drinks at a nickel. Second, while prices are held at 5 cents for approximately half the bottlers, the costs for all the bottlers have gone up more than 100 percent. A bottler in 1940 could buy a glass bottle for 2 cents; now it costs more than 5 cents. A new delivery truck has increased from \$800 to \$1,600 minimum, wooden crates from 37 cents to 78 cents, sugar from 4 cents per pound to 8 cents and higher. If prices are frozen by the Economic Stabilization Administration, an estimated one-fourth to one-third of the bottlers will be forced to close up shop unless they are allowed some adjustment.

Third, the deposit structure of the soft drink industry also puts the bottler on the losing side of the ledger; deposits are still 2 cents with replacement value of 5 cents. Thus for every unreturned bottle, the bottler loses 3 cents and on an average one bottle in every case of 24 bottles is unreturned, so for every case sold, the bottler automatically drops 3 cents from his profit column. This 3 cents is often the difference between going bankrupt and being able to stay in business.

The Senate Small Business Committee is thus concerned with the plight of the small bottlers and plans to continue its investigation of the soft drink industry.

## X. SURVEY OF COMMERCIAL RENTS

Rent is one of the largest components in the cost of doing business.

Your committee, in order to have a better understanding of the increase in the cost of doing business in the past 10 years, requested its staff to make a survey of commercial rents in six key cities.

Questionnaires were sent only to those whose addresses in the telephone directory remained the same in 1940 and 1950. Approximately one listing in every eight remained at the same address.

Of the 20,000 questionnaires sent out, some 11,000 were returned. Of these, well over half—58 percent—indicated they rented their business premises. These questionnaires were tabulated and the results are set forth in table I.

Of the remainder, 29 percent indicated ownership of their business property and 2 percent had lease agreements involving a percentage of their gross. The remaining 21 percent were improperly filled out, covered less than the 10-year period requested, or were otherwise incomplete.

In the six cities surveyed, the average increase in commercial rents was 78.5 percent while the average increase in residential rents in the United States was 26.3 percent, according to the Bureau of Labor Statistics. During the same 10-year period, the Nation-wide cost-of-living index increased 75.7. (See table II.)

TABLE I.—Commercial rent survey, period covering 1940-50—Breakdown of survey returns indicating rents

	Re- port- ing de- creases	Re- port- ing no change	Reporting increases								300 per- cent and over
			20 per- cent and under	20.1 to 40 per- cent in- crease	40.1 to 60 per- cent in- crease	60.1 to 80 per- cent in- crease	80.1 to 100 per- cent in- crease	100.1 to 150 per- cent in- crease	150.1 to 200 per- cent in- crease	200.1 to 300 per- cent in- crease	
Phoenix, Ariz. ....	0	9.1	4.5	15.9	15.9	6.8	13.6	11.4	11.4	9.1	2.3
Birmingham, Ala. ....	.9	5.1	2.8	6.5	9.3	20.5	13.1	19.5	11.6	8.4	2.3
Boston, Mass. ....	1.5	11.4	9.6	20.9	18.8	14.7	10.2	8.6	3.0	1.3	0
Minneapolis, Minn. ....	1.1	8.9	8.5	19.8	15.0	10.9	14.1	13.3	4.2	3.8	.4
Los Angeles, Calif. ....	.9	6.2	4.4	9.5	14.6	15.0	16.5	17.4	7.7	6.3	1.6
Denver, Colo. ....	.7	5.0	5.0	9.0	15.0	12.5	14.6	23.2	10.0	4.3	.7

TABLE II.—Commercial rent survey, period covering 1940-50—Comparison of commercial rents and residential rent increases and cost-of-living increases

	Average rent increases		Cost-of-living increases <sup>2</sup>	Popula- tion in- crease 1950 over 1940
	Commer- cial	Residen- tial <sup>1</sup>		
Phoenix, Ariz. ....	Percent 59.8	Percent ( <sup>3</sup> ) 59.8	Percent ( <sup>3</sup> ) 59.8	Percent 61.2
Birmingham, Ala. ....	99.2	61.9	80.6	11.6
Boston, Mass. ....	64.5	23.8	70.3	2.6
Minneapolis, Minn. ....	69.8	29.5	72.4	5.1
Los Angeles, Calif. ....	89.2	39.5	69.8	30.1
Denver, Colo. ....	88.2	43.1	78.3	28.1
United States .....	78.5	26.3	75.7	14.5

<sup>1</sup> Source: Consumers Price Index, Bureau of Labor Statistics, revised figures.

<sup>2</sup> Ibid.

<sup>3</sup> Increases for residential rent and cost of living for Phoenix not available.



## XI. NEWSPRINT

Aware of the importance of the Nation's smaller dailies, weeklies, and semiweeklies in the preservation of freedom of the press, your committee staff took cognizance of reported hardships being encountered by smaller newspapers in obtaining supplies of newsprint, the sine qua non of continued existence. Data has been assembled on supplies, consumption, and related aspects of the over-all newsprint situation. There is the possibility that conditions may warrant holding hearings on this subject should it seem that there may be widespread distress among small users of newsprint.

It is acknowledged that most of the Nation's small newspapers, numbering about 8,000 weeklies and semiweeklies, and some 750 dailies buy their newsprint through wholesale paper distributors. These smaller papers require but 3 percent of total newsprint production. Most of the larger dailies have direct contract relations with mills.

*Consumption*

	1950	1949	1948	1947
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>
January.....	345,093	332,671	292,534	266,422
February.....	333,159	308,753	307,967	258,424
March.....	396,923	366,887	338,337	302,672
April.....	403,801	368,945	342,572	297,461
May.....	401,922	392,212	348,823	302,994
June.....	376,482	349,944	237,060	292,664
July.....	336,759	313,118	291,647	263,698
August.....	346,795	318,046	314,045	281,102
September.....	373,788	356,528	337,196	299,807
October.....	420,786	399,262	381,697	339,286
November.....	407,943	378,626	364,253	338,012
December.....	-----	372,497	363,698	322,136
Total.....	4,143,451	4,257,489	4,009,829	3,564,678
Plus estimated 25 percent.....	1,237,654	1,271,717	1,130,977	1,188,226
Totals of all consumption.....	5,381,105	5,529,206	5,140,806	4,752,904

*Production (North America)*

	1950	1949	1948	1947
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>
January.....	491,286	496,250	468,214	470,841
February.....	468,346	475,548	430,364	433,807
March.....	532,206	534,100	484,361	472,341
April.....	505,338	517,907	490,784	470,812
May.....	549,656	522,717	496,621	486,399
June.....	529,387	517,460	490,290	453,031
July.....	523,535	497,693	496,990	479,973
August.....	557,325	525,778	497,993	480,321
September.....	522,143	485,779	480,222	470,167
October.....	545,806	509,001	511,769	502,874
November.....	542,823	508,896	507,615	461,448
December.....	-----	484,726	495,105	463,704
Total.....	5,767,851	6,075,855	5,850,328	5,645,718

NOTE.—Estimated total production for 1950 is 6,317,000 tons.

*Prices.*—The uniform action of the newsprint industry of announcing in October and November a price increase of \$6 a ton, bringing the cost of newsprint to \$106 per ton, has occasioned considerable comment. In this regard, a typical comment received by the committee from a southern publisher of five weekly papers reads:

\* \* \* I deeply appreciate the fact that the Senate Small Business Committee is investigating this problem. I suggest that your committee not only look into the matter of supply, but also into the matter of prices. I see no justification for the last increase in newsprint prices.

The newsprint price reached a high of \$112.60, New York basis, in 1920. It then dropped to \$40 in 1934–35. It climbed back to \$50 in 1938–42. Postwar increases to \$84 in 1946, to \$90 in 1947, to \$96 in late 1948, and \$100 in mid-1949.

One member of the industry ventured the opinion that the Canadian mills which set off the general price boost did so in an attempt to anticipate the possibility of price controls by the United States Government.

*Profits.*—Although manufacturers of newsprint unanimously cited rising costs as the reason for their recent increase, the reported profit position of many paper mills reflects a very wholesome condition within the industry. For example:

1. Crown Zellerbach Corp. increased its consolidated net income in the 6 months ended October 31 to \$12,411,785 from \$8,656,013 earned in the corresponding period a year ago. Net income equaled \$4.01 a common share opposed to \$2.77 for the same period of 1949. Sales totaled \$105,589,017.

2. Abitibi Power & Paper Co. reported net profit of \$6,065,138 for the first 6 months of 1950, up \$1,544,386 over the same period in 1949.

3. Consolidated Paper Corp. for the first 6 months of 1950 reported a net profit of \$5,933,552, an 11-percent increase over the same period a year ago.

4. St. Lawrence Corp., Ltd., consolidated report for 9 months ended September 30 showed 1950 net profit as \$4,999,914 as against \$2,511,161 for the first 9 months of 1949.

The Southern Newspapers Publishers Association, on October 28, at its convention in White Sulphur Springs, W. Va., went on record as—

protesting these (price) increases as apparently being unnecessary, as being immediately harmful to newspapers, as being eventually harmful to newsprint producers, as adding impetus to the inflationary spiral.

Sources contacted by the committee within the trade were of the opinion that, while the supply of newsprint is undoubtedly "tight," there had come to attention a relatively few more or less isolated instances of actual hardship. Representatives of the newsprint industry seemed inclined to attribute the majority of current hardship cases to one or more of the following reasons: (1) lack of ordinary business prudence and foresight; (2) inadequate credit facilities; (3) recent changes in source of supply which created a "new customer" status, and (4) the desire, due to increased circulation and advertising resulting from the general high level of business activity, to increased press runs.

## XII. COLOR TELEVISION

Following the decision on color television by the Federal Communications Commission in October of 1950, many complaints on it were received by the Senate Small Business Committee. As a result of requests from individual Senators, the staff of the committee was directed to undertake a full study and investigation, particularly with respect to the effect of the decision on small business. Although the committee investigation is now in progress, a brief review of the facts of the situation are included in this report.

In May 1945, after a public hearing, the Federal Communications Commission issued a report on frequency allocations in which it allocated 13 channels (later reduced to 12), each 6 megacycles wide, for the commercial television-broadcast service. All of these channels were located in the "very high frequency" band (VHF), a portion of the radio spectrum below 300 megacycles. In this report the Commission recognized that 13 channels were inadequate to provide a Nation-wide, competitive system of television broadcasting and that additional space in the spectrum would be needed to accomplish this purpose. The report stated in part:

As was pointed out in the proposed report, the Commission is still of the opinion that there is insufficient spectrum space available below 300 megacycles to make possible a truly Nation-wide and competitive television system. Such a system, if it is to be developed, must find its lodging higher up in the spectrum where more space exists and where *color pictures* and superior monochrome pictures can be developed through the use of wider channels. In order to make possible this development of television the Commission has made available the space between 480 and 920 megacycles for experimental television. The time which may elapse before a system can be developed to operate on wider channels on these ultra-high frequencies is primarily dependent upon the resourcefulness of the industry in solving the technical problems that will be encountered. In this portion of the spectrum it is contemplated that the Commission will license the entire band between 480 and 920 megacycles for experimental television and will not designate any particular channels. Applicants desiring to operate in this portion of the spectrum should consult with the chief engineer as to the exact frequency band they should utilize. [Italics added.]

It will be noted that the Commission emphasized the inadequacy of the VHF allocation to television broadcasting; that the space between 480 and 920 megacycles in the "ultra-high frequency" band (UHF), a portion of the spectrum above 300 megacycles, was set aside for black-and-white and color television experimentation; and that interested parties were urged to "undertake comprehensive and adequate experimentation in the upper portion of the spectrum."

In September 1946, Columbia Broadcasting System filed a petition requesting the Commission to authorize the operation of its color-television system in the UHF band on a commercial basis. The color-television system proposed by CBS in its 1946 petition required the use of channels 16 megacycles wide. Thus, the adoption of this proposal would have meant that the UHF band allocated to television experimentation would be limited to only 27 channels, all devoted to color television. In the course of the hearing held on the CBS petition, the Radio Corp. of America (RCA) demonstrated a color-television system which could be accommodated within a 12.5-megacycle band, but which was still in the laboratory stage. In its report of March 18, 1947, the Commission decided to deny CBS's petition on the

ground that its system, as then proposed, was not ready for commercial use.

In September 1948, the Commission conducted another hearing to determine whether the UHF band 475-890 megacycles could be used for commercial black-and-white and color-television broadcasting. This portion of the spectrum had been set aside for television experimentation, and it was evident that any action restricting the band to the black-and-white service might well result in rendering homeless any future color-television service. Testimony presented in the hearing indicated that progress had been made in the development of a color-television system using 6-megacycle channels.

During the above hearings three color-television systems were proposed to the Commission for adoption. Columbia Broadcasting System, Inc. (CBS), offered what is known as the "field sequential" system; Radio Corp. of America (RCA) offered a "dot sequential" system; and Color Television, Inc., offered a "line sequential" system.

Under the Communications Act of 1934, as amended, the Commission is required, among other things, to study new uses for radio, provide for experimental uses of the frequencies, and to generally encourage the larger and more effective use of radio in the public interest. In carrying out this statutory mandate, the Commission conducted extensive color-television hearings which began on September 26, 1949, and which were concluded on May 26, 1950. At these hearings, demonstrations of proposed color systems were viewed by the Commission on eight separate occasions, and comprehensive and detailed proposed findings and conclusions submitted by the parties were given careful consideration. The Commission's color decision was based on the record of these proceedings.

The Commission issued its First Report of the Commission (Color-Television Issues) on September 1, 1950. On October 11, 1950, the Commission issued its Second Report of the Commission, and Order amending its engineering standards to provide for color-television broadcasting based on the field-sequential system, the system proposed by the Columbia Broadcasting System (CBS).

In its First Report the Commission decided that "In order for a color system to be considered eligible for adoption it must meet the following minimum criteria:

(a) It must be capable of operating within a 6-megacycle channel-allocation structure.

(b) It must be capable of producing a color picture which has a high quality of color fidelity, has adequate apparent definition, has good picture texture, and is not marred by such defects as misregistration, line crawl, jitter, or unduly prominent dot or other structure.

(c) The color picture must be sufficiently bright so as to permit an adequate contrast range and so as to be capable of being viewed under normal home conditions without objectionable flicker.

(d) It must be capable of operating through receiver apparatus that is simple to operate in the home, does not have critical registration or color controls, and is cheap enough in price to be available to the great mass of the American purchasing public.

(e) It must be capable of operating through apparatus at the station that is technically within the competence of the type of trained personnel hired by a station owner who does not have an extensive research or engineering staff at his disposal and the costs of purchase operation, and maintenance of such equipment must not be so high as unduly to restrict the class of persons who can afford to operate a television station.

(f) It must not be unduly susceptible to interference as compared with the present monochrome system.



(g) It must be capable of transmitting color programs over intercity relay facilities presently in existence or which may be developed in the foreseeable future.

With respect to the CTI system, the Commission found it deficient in the following respects:

- (a) The quality of the color picture is not satisfactory.
- (b) There is serious degradation in quality of the black-and-white pictures which existing receivers get from CTI color transmissions.
- (c) The equipment utilized by the CTI system both at the receiver and station end is unduly complex.
- (d) Insufficient evidence was offered as to whether the system is not unduly susceptible to interference.

The Commission found the RCA system deficient in the following respects:

- (a) The color fidelity of the RCA picture is not satisfactory.
- (b) The texture of the color picture is not satisfactory.
- (c) The receiving equipment utilized by the RCA system is exceedingly complex.
- (d) The equipment utilized at the station is exceedingly complex.
- (e) The RCA color system is much more susceptible to certain kinds of interference than the present monochrome system or the CBS system.
- (f) There is not adequate assurance in the record that RCA color pictures can be transmitted over the 2.7-megacycle coaxial cable facilities.
- (g) The RCA system has not met the requirements of successful field testing.

The report stated that the CBS system produces a color picture that is most satisfactory from the point of view of texture, color fidelity, and contrast. The receivers and station equipment are simple to operate, and receivers when produced on a mass-marketing basis should be within the economic reach of the great mass of purchasing public. The Commission further found that even with present equipment the CBS system can produce color pictures of sufficient brightness without objectionable flicker to be adequate for home use and that the evidence concerning long persistence phosphors shows that there is a specific method available for still further increasing brightness with no objectionable flicker. Finally, the Commission decided that while the CBS system has less geometric resolution than the present monochrome system the addition of color to the picture more than outweighs the loss of geometric resolution so far as apparent definition is concerned.

Two principal objections to the adoption of the CBS system were its lack of compatibility and the fact that it was limited to direct view tubes no larger than 12½ inches in size. With respect to the first objection, the only compatible systems demonstrated failed to meet the criteria. In an effort to make the satisfactory systems compatible, the result has been either an unsatisfactory system from the standpoint of color picture quality or a complex system, or both. The Commission concluded, therefore, that it should adopt the one satisfactory system demonstrated despite its incompatibility. The Commission concluded in paragraph 124 of its first report that—

It would not be in the public interest to deprive 40,000,000 American families of color television in order to spare the owners of 7,000,000 sets the expense required for adaptation.

With respect to the second objection, the Commission recognized in its First Report that the CBS system was at that time limited, as a practical matter, to direct-view tubes no larger than 12½ inches in size. This limitation, however, is not a system limitation but rather a

problem of receiver apparatus. Direct-view tricolor receiving tubes without size limitations are now being worked upon by a number of companies, and the expert witnesses at the above hearings agreed that such tubes if successfully developed could be utilized on the field-sequential system.

In taking the above course of action, the Commission had to face the problem of how to reap the benefits of color television with the least possible transitional dislocation. No color system was proposed which would enable existing receivers to receive color pictures without the additional cost of conversion. No workable converter for the RCA or CTI system was demonstrated, and the dislocation attendant upon the reception in color of dot- or line-sequential transmissions would, therefore, have been greater than for the field-sequential system which permits such conversion at a reasonable cost. Moreover, practical converters for this later system were demonstrated to the Commission.

The Commission nevertheless considered the whole problem of compatibility (and receiver dislocation). As pointed out in paragraph 124 of the First Report, the receiver aspect of compatibility is a temporary problem which will decrease progressively each year; that, based on an assumption of 7,000,000 sets in the hands of the public at that time, the problem of compatibility would be diluted each year, depending on the annual rate of production; that, if sets were manufactured at the then rate of production, then 1 year after the adoption of an incompatible system approximately 40 percent of the receivers in the hands of the public should be capable of receiving these signals without any change; and that that percentage would become larger each year.

There are other factors which would also contribute to a reduction of the dislocation attendant upon the adoption of incompatible color standards. These factors are the probable continuance of some black-and-white telecasts, which will avert the immediate obsolescence of present receivers; the purchase of new sets built to receive color by those who do not now own sets; and, finally, the inevitable replacement of old receivers. Thus, the passage of time, coupled with these factors, would obviously serve to dilute the problem of existing incompatible receivers.

Intimately connected with the foregoing problem of incompatibility and receiver dislocation was also the question whether a decision regarding color television should be further postponed in order to obtain additional information with respect to several technical improvements in the art. But delay would have prolonged an extended proceeding and, in addition, would have magnified the compatibility problem. Since the field-sequential system was satisfactory, and in view of the fact that no satisfactory compatible system had been demonstrated, the Commission decided that a final decision would be postponed only if that could be done without aggravating the compatibility situation. Accordingly, "bracket standards" were suggested and the television-manufacturing industry was asked whether it could and would build future television receivers capable of operating within brackets so as to receive field-sequential color transmissions in black and white in addition to the black-and-white transmissions presently received. It is significant to note that the manufacturers

who responded—and they represented the greatest part of the manufacturing capacity of the television industry—indicated that they were unable or unwilling to meet the requirements as to brackets as set forth in the First Report. Nor was any other method suggested whereby the status quo on incompatibility could have been maintained. The Commission, on October 11, 1950, issued a Second Report and simultaneously therewith issued an order amending its Standards of Good Engineering Practice Concerning Television Broadcast Stations, so as to provide for color television.

On October 4, 1950, RCA filed a petition requesting the Commission (a) during the period December 5, 1950, to January 5, 1951, to review the improvements made in the performance of the RCA system, and (b) during the period to June 30, 1951, to review experimental broadcasts of color signals under the RCA, CBS, CTI, and other systems, before making a final determination in respect of color standards. This request to review the claimed improvements and to view experimental broadcasts could not properly be granted without reopening the record. The Commission denied the petition of RCA.

Moreover, in its second report the Commission indicated that its action in adopting the CBS system did not foreclose the possibility of adopting another color system at a future date. It stated in that report:

17. It is therefore contemplated that interested persons may conduct experimentation in accordance with experimental rules not only as to color television but as to all phases of television broadcasting. Of course, any person conducting such experimentation should realize that any new color system that is developed for utilization on regular television channels must meet the minimum criteria for a color-television system set forth in our First Report. In addition, any such system that is developed or any improvement that results from the experimentation might face the problem of being incompatible with the present monochrome system or the color system we are adopting today. In that event, the new color system or other improvement will have to sustain the burden of showing that the improvement which results is substantial enough to be worth while when compared to the amount of dislocation involved to receivers then in the hands of the public.

RCA and others brought an action in the Federal court in Chicago on October 17, 1950, to enjoin and set aside the Commission's order of October 11, 1950, adopting standards for the transmission of color television. A three-judge court was convened and oral argument heard on November 14, 15, and 16, 1950. The court upheld the Commission on December 22, 1950, by a 2-to-1 vote, but ruled that the temporary restraining order previously granted the plaintiffs was to remain in effect until April 1, 1951, or until dissolved by the Supreme Court.

Although standards for color transmissions have been adopted, this does not close the chances of a new and improved system being considered, in accordance with the procedure set forth in the Commission's reports. Nor does the adoption of the CBS color system make present sets obsolete. Adapters and converters built into television sets at the time of manufacture are cheaper and give better service than external adapters and converters. However, existing sets with no changes made on them will continue to be able to receive programs broadcast in accordance with black-and-white standards, and these programs are expected to be transmitted for at least several years, in view of the present crisis.

## XIII. CONSUMER CREDIT CONTROLS

The effects on small business of regulation W, the consumer credit controls reactivated by the Federal Reserve Board on September 18, 1950, has been followed with interest by your committee. The staff has been maintaining a close check on the effects of these credit controls on smaller, independent retailers.

It is the belief of your committee staff that these controls on consumer credit may have been premature. While automobile and, to a lesser extent, television production remained at a high level, the ability of consumers, especially those representing the mass market, have been seriously curtailed. Spot surveys of potential buyers who were forced out of the market indicate that many will save until they are in a position to shoulder the heavier financing burden. There is a reasonable expectation that the demand for automobiles and television sets will take an upswing next spring at the very time that shortages will in all probability curtail production.

It is debatable whether it would not have been wiser to exhaust this demand at a time when there was available production, rather than to postpone it until production is cut and the inflationary effect of purchases will be greater.

Outstanding consumer installment credit declined an estimated 74 million dollars in November to a total of 13,319 million at the end of the month. An 85-million-dollar increase in noninstallment consumer credit, however, offset the decline in installment credit. The result was that total outstanding consumer credit at the end of November was estimated at 19,412 million dollars, which was just about at the same level as at the end of October.

## XIV. MANPOWER

Since Korea, with rapidly expanding armed forces and industry's conversion to defense mobilization, the problems of manpower have been in a continual state of flux. The Pentagon all fall has been constantly revising its figures on manpower needs for the armed services along with the current tides of success in Korea, retreats in Korea, and the increasing danger of possible full-scale war. Small business throughout the Nation has already felt these dislocations of manpower. To keep informed of the manpower situation, acting chairman of the Senate Small Business Committee Ernest W. McFarland appointed Senator William Benton as chairman of a Subcommittee on Manpower with Senators Russell B. Long and Andrew F. Schoeppel members of the Manpower Subcommittee.

Concerning manpower, President Truman, in his December 15 speech to the Nation, announced that the Armed Forces will be built up to 3,500,000 men by the summer of 1951 compared with our 592,000-man Army last June. The Pentagon until recently has been conservative in calling men for the armed services, feeling it unwise to keep men in arms in excess of emergency needs, thus sapping our industrial manpower. The armed services also no longer have the training facilities for the large numbers inducted during World War II. The Air Corps, during the first week of January, had to turn down Air Corps volunteers because of excess enlistments and no training facilities. It is the opinion of 18 economic experts at Harvard Business



# CONSUMER INSTALMENT CREDIT

FEDERAL RESERVE ESTIMATES

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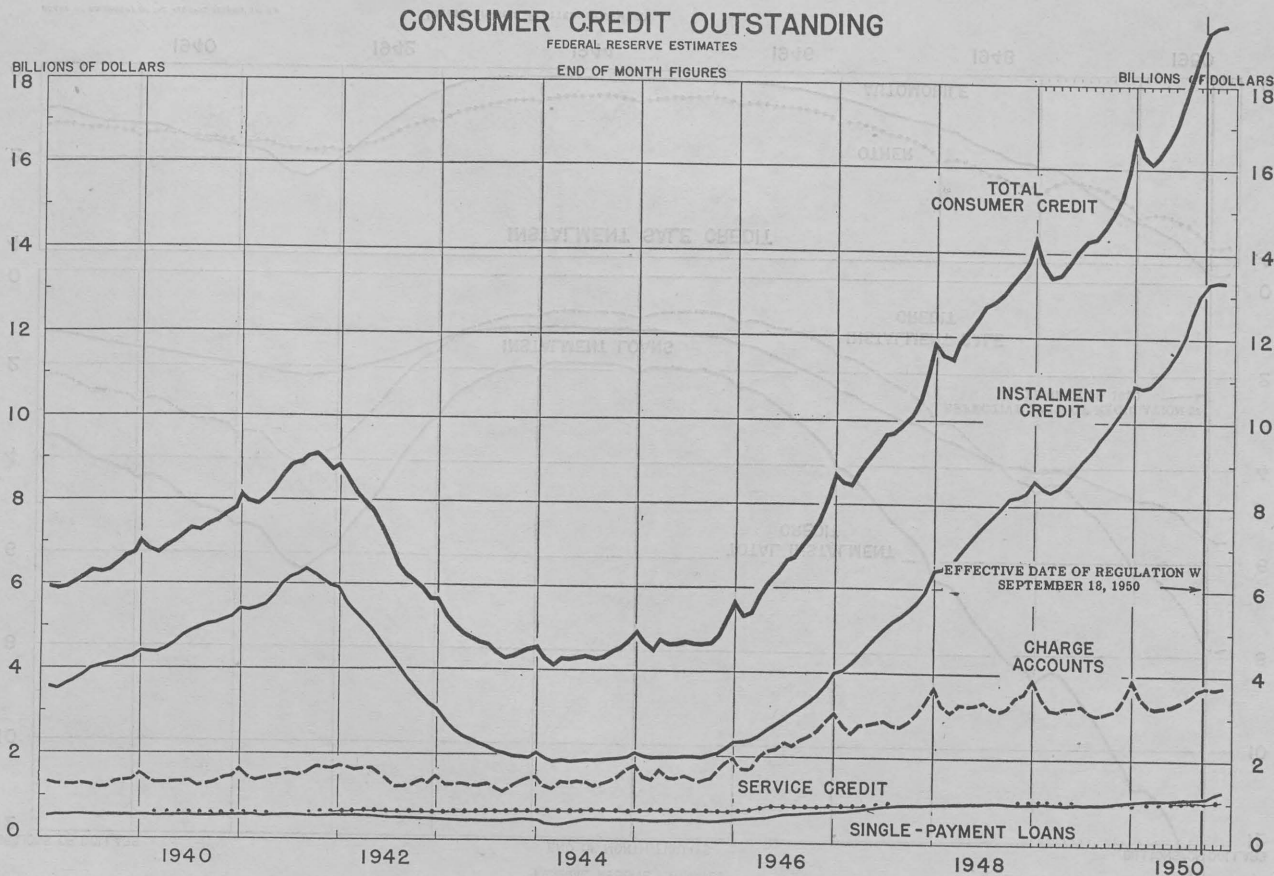
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

LATEST FIGURES PLOTTED, NOVEMBER

School that after we rebuild Army facilities, our industrial capacity can support an Army of 6,000,000 men over a sustained period without peril to our economy. These economists feel that the Kremlin calculates that our economy will inevitably crack under the strain of a long period of semimobilization, but with good leadership, it need not, they say.

The major confusion and complaint of inducting men into the armed services has not been concerned with the policy on drafting 19- to 25-year-olds, but upon calling up the Reserves. Since Korea, more than 500,000 reservists have gone back into uniform, including the federalization of National Guard units. In many cases these reservists did not have time to arrange their affairs and had to leave almost immediately. Usually 4 months' notice is given before reservists are required to report to active duty, but last fall when the military met with reverses and needed trained men in a hurry, some reservists were called up without advance notice.

The Small Business Committee has received other complaints that the calling up of Reserves has been, in many instances, plainly unfair. Many men in the Reserves, for instance, have families and dependents, are going to school or have just started their own businesses. In contrast, draftees are deferred if they are veterans, fathers, and in many cases are allowed to finish school before being called up. The Senate Armed Services Subcommittee on Reservists is currently conducting hearings on the inequities due to lack of a fixed mobilization policy. Some consistent policy of inducting manpower into the armed services might well be instituted to take the burden off the veterans of World War II. The Pentagon has announced that it will ask Congress to lower the draft to 18 years of age, extend the term of service from 21 to 27 months, and perhaps draft physically handicapped men who can learn some vital skill for the Army.

Small business, in regard to the remaining civilian manpower, has not fared well. In addition to having workers called into the armed services, small companies have had trouble keeping their skilled labor. Even when the labor supply is plentiful, small business is known to be the training ground for acquiring skills—the spot where an apprentice often receives his first training and when he is in the position of a highly skilled technician, leaves the small business for a larger one where he receives a higher salary plus all the additional securities of pension plans, escalator clauses, profit sharing, etc. Whenever the labor force becomes short, small business is the first to feel the pinch and since Korea, small business has lost much of its valuable manpower. Compounding the difficulties of manpower drifting to larger companies or being called into the armed services, small businesses often have to lay off their workers because of shortages of materials. When, finally, the small producer is integrated into the defense effort, thereby obtaining the necessary supplies, he often finds that his key personnel has left him for larger concerns.

"Voluntary controls" of manpower for early use in 1951 are now being prepared. In September 1950 an Executive order gave Secretary of Labor Maurice Tobin the responsibility for manpower policies. Some weeks ago Tobin announced that he was setting up an Office of Defense Manpower, and early in December, Tobin's "Inter-Departmental Committee on Defense Manpower," made up of representatives of the Departments of Agriculture, Commerce, Defense, and Interior,

Selective Service, Government housing and transportation agencies, set up 13 regional manpower committees and from 20 to 25 local committees in key industrial areas. The manpower plan, a system much like its World War II prototype, is that the Government will ask the employers to do all their hiring through some 1,800 State employment service offices which can recruit needed workers locally or through State-wide or regional clearance systems. A priority system will probably be worked out whereby defense producers have the first call on available labor. Under this system employers will not be able to shop around extensively for their own labor and if they are uncooperative about "hoarding" labor, the Government can stop the allocations of raw materials to these companies. Such a system of manpower distribution holds little comfort for those engaged in nonessential civilian activity or trying to struggle along with intermittent war subcontracts. This is a problem which small business must prepare itself to face.

